Prepared Testimony of Senator Carl Levin
Chairman, Senate Permanent Subcommittee on Investigations
on
Unfair Credit Card Practices and the Need for a Legislative Remedy

Before the House Financial Services
Subcommittee on Financial Institutions and Consumer Credit

April 17, 2008

Chairwoman Maloney, Ranking Member Biggert, and Members of the Subcommittee, I thank you for the opportunity to testify today and add to your legislative record a description of some of the work on unfair credit card practices that has been conducted in the other body, by the Senate Permanent Subcommittee on Investigations, which I chair. I would also like to commend this Subcommittee and the full Financial Services Committee for the important work you have been doing to expose credit card abuses. The Maloney-Frank bill you are considering today, H.R. 5244, includes valuable provisions which would alleviate many of the credit card abuses hurting American families. It's impressive that the bill already has 95 cosponsors.

I also commend my colleague Senator Wyden for his work on this topic.

Credit card companies have gone too far when they hike the interest rates of cardholders who pay on time and comply with their credit card agreements, impose interest rates as high as 32%, charge interest for debt that was paid on time, apply higher interest rates retroactively to existing credit card debt, pile on excessive fees, charge interest on those fees, apply consumer payments first to the debt with the least expensive interest rate, and engage in other outrageous practices that are burying American consumers in a mountain of debt. Working families are already under pressure from skyrocketing gasoline and food costs, the mortgage crisis, and mounting debt; now more than ever, credit card abuses are compounding their misery.

Because these unfair practices have gone on for so many years and often represent the industry norm, it is unlikely industry will give them up unless credit card reform legislation creates a new level playing field that applies equally to all credit card issuers. Otherwise, I am afraid that these practices are too entrenched, too profitable, and too immune to consumer pressure for the companies to change them on their own. Legislation is critical not only to protect consumers but also to ensure that credit card companies willing to do the right thing are not put at a competitive disadvantage by companies continuing unfair practices.

Some argue that Congress doesn't need to ban unfair credit card practices; they contend that improved disclosure alone will empower consumers to seek out better deals. Sunlight can be a powerful disinfectant, but credit cards have become such complex financial products that even improved disclosure will frequently not be enough to curb the abuses -- first because some practices are so confusing that consumers can't easily understand them, and second because better disclosure does not always lead to greater market competition, especially when virtually an entire industry is using and benefiting from practices that hurt consumers.

PSI Credit Card Investigation

Before I discuss the credit card investigation conducted by the Senate Permanent Subcommittee on Investigations – or PSI – I'd like to briefly explain a bit about PSI. PSI is a unique subcommittee charged with conducting bipartisan investigations into a specified range of issues. The Subcommittee traditionally takes the time to delve deeply into a subject and conducts hearings using detailed case histories to illustrate the issues being examined. The Subcommittee has no legislative jurisdiction, and so takes pride in sharing its work with the committees of legislative jurisdiction to add to their legislative records. It is also common for Subcommittee Members to introduce legislation addressing the problems examined in a PSI investigation. That legislation is then referred to the committees of legislative jurisdiction for their further consideration.

Our work on credit cards started in 2005, when I requested a U.S. Government Accountability Office (GAO) report to compile a description of the fees, interest rates and disclosure practices of popular credit cards from the largest credit card issuers. Following the release of that GAO report in 2006, we began to investigate some of the highlighted practices. The Subcommittee staff met with each of the major card issuers, visited a credit card bill processing facility, spoke with credit card regulators, and took other steps to be sure we fully understood the industry's practices and standards. The staff also met with consumer groups, businesses, and experts familiar with credit card practices. The Subcommittee also poured through numerous case histories of individuals describing abusive practices that had mired them and their families in debt.

PSI held two hearings examining a range of unfair credit card practices. The first hearing, in March 2007, examined practices involving fees, interest rates and grace periods at the major credit card companies. A second hearing in December 2007 looked at how even cardholders who play by the rules, pay their bills on time, and stay under their credit limits, have had their interest rates hiked, sometimes to the extent that their interest rates were doubled or even tripled. Together, these hearings provide a detailed legislative record documenting a host of unfair credit card practices and the need for legislative reform.

I'd like to describe here some of the case histories that the Subcommittee examined at its hearings.

Excessive Fees

The first case history we examined illustrates the fact that major credit card issuers today impose a host of fees on their cardholders, including late fees and over-the-limit fees that are not only substantial in themselves but can contribute to years of debt for families unable to immediately pay them.

Wesley Wannemacher of Lima, Ohio, testified at our March 2007 hearing. In 2001 and 2002, Mr. Wannemacher used a new credit card to pay for expenses mostly related to his wedding. He charged a total of about $3,200, which exceeded the card's credit limit by $200. He spent the next six years trying to pay off the debt, averaging payments of about $1,000 per year. As of February 2007, he'd paid about $6,300 on his $3,200 debt, but his billing statement showed he still owed $4,400.

How is it possible that a man pays $6,300 on a $3,200 credit card debt, but still owes $4,400? Here's how. Take a look at Exhibit 1. On top of the $3,200 debt, Mr. Wannemacher was charged by the credit card issuer about $4,900 in interest, $1,100 in late fees, and $1,500 in over-the-limit fees. He was hit 47 times with over-limit fees, even though he went over the limit only 3 times and exceeded the limit by only $200. Altogether, these fees and the interest charges added up to $7,500, which, on top of the original $3,200 credit card debt, produced total charges to him of $10,700.

In other words, the interest charges and fees more than tripled the original $3,200 credit card debt, despite payments by the cardholder averaging $1,000 per year. Unfair? Clearly, I think, but our investigation has shown that sky-high interest charges and fees are not uncommon in the credit card industry. While the Wannemacher account happened to be at Chase, penalty interest rates and fees are also employed by other major credit card issuers.

The week before the March hearing, Chase decided to forgive the remaining debt on the Wannemacher account, and while that was great news for the Wannemacher family, that decision doesn't begin to resolve the problem of excessive credit card fees and sky-high interest rates that trap too many hard-working families in a downward spiral of debt.

These high fees are made worse by the industry-wide practice of including all fees in a consumer's outstanding balance so that they incur interest charges. It is one thing for a bank to charge interest on funds lent to a consumer; charging interest on penalty fees goes too far.

Charging Interest for Debt Paid on Time

Another galling practice featured in our March hearing involves the fact that credit card debt that is paid on time routinely accrues interest charges, and credit card bills that are paid on time and in full are routinely inflated with what I call "trailing interest." Every single issuer contacted by the Subcommittee engaged in both of these unfair practices which squeeze additional interest charges from responsible cardholders.

Here's how it works. Take a look at Exhibit 2. Suppose a consumer who usually pays his account in full, and owes no money on December 1st, makes a lot of purchases in December, and gets a January 1 credit card bill for $5,020. That bill is due January 15. Suppose the consumer pays that bill on time, but pays $5,000 instead of the full amount owed. What do you think the consumer owes on the next bill?

If you thought the bill would be the $20 past due plus interest on the $20, you would be wrong. In fact, under industry practice today, the bill would likely be twice as much. That's because the consumer would have to pay interest, not just on the $20 that wasn't paid on time, but also on the $5,000 that was paid on time. In other words, the consumer would have to pay interest on the entire $5,020 from the first day of the new billing month, January 1, until the day the bill was paid on January 15, compounded daily. So much for a grace period. In addition, the consumer would have to pay the $20 past due, plus interest on the $20 from January 15 to January 31, again compounded daily. In our example, using an interest rate of 17.99% (which is the interest rate charged to Mr. Wannamacher), the $20 debt would, in one month, rack up $35 in interest charges and balloon into a debt of $55.21.

You might ask – hold on – why does the consumer have to pay any interest at all on the $5,000 that was paid on time? Why does anyone have to pay interest on the portion of a debt that was paid by the date specified in the bill – in other words, on time? The answer is, because that's how the credit card industry has operated for years, and they have gotten away with it.

There's more. You might think that once the consumer gets gouged in February, paying $55.21 on a $20 debt, and pays that bill on time and in full, without making any new purchases, that would be the end of it. But you would be wrong again. It's not over. Look again at Exhibit 2. Even though, on February 15, the consumer paid the February bill in full and on time – all $55.21 – the next bill has an additional interest charge on it, for what we call "trailing interest." In this case, the trailing interest is the interest that accumulated on the $55.21 from February 1 to 15, which is time period from the day when the bill was sent to the day when it was paid. The total is 38 cents. While some issuers will waive trailing interest if the next month's bill is less than $1, if a consumer makes a new purchase, a common industry practice is to fold the 38 cents into the end-of-month bill reflecting the new purchase.

Now 38 cents isn't much in the big scheme of things. That may be why many consumers don't notice these types of extra interest charges or try to fight them. Even if someone had questions about the amount of interest on a bill, most consumers would be hard pressed to understand how the amount was calculated, much less whether it was incorrect. But by nickel and diming tens of millions of consumer accounts, credit card issuers reap large profits.

I think it is indefensible to make consumers pay interest on debt which they pay on time. It is also just plain wrong to charge trailing interest when a bill is paid on time and in full.

Unfair Interest Rate Hikes

My Subcommittee's second hearing focused on another set of unfair credit card practices involving unfair interest rate increases. Cardholders who had years-long records of paying their credit card bills on time, staying below their credit limits, and paying at least the minimum amount due, were nevertheless socked with substantial interest rate increases. Some saw their credit card interest rates double or even triple. At the hearing, three consumers described this experience.

Janet Hard of Freeland, Michigan, had her Discover credit card interest rate increased from 18% to 24% in 2006, even though she had made payments to Discover on time and paid at least the minimum amount due for over two years. Discover applied the 24% rate retroactively to her existing credit card debt of $8,300, increasing her minimum payments and increasing the amount that went to finance charges instead of the principal debt. The result, as shown on Exhibit 3, was that, despite making steady payments totaling $2,400 in twelve months and keeping her purchases to less than $100 during that same year, skyhigh interest charges ate up most of her payments and Ms. Hard's credit card debt went down by only $350.

Millard Glasshof of Milwaukee, Wisconsin, a retired senior citizen on a fixed income, incurred a debt of about $5,000 on his Chase credit card, closed the account, and faithfully paid down his debt with a regular monthly payment of $119 for years. In December 2006, Chase increased his interest rate from 15% to 17%, and in February 2007, hiked it again to 27%. Retroactive application of the 27% rate to Mr. Glasshof's existing debt meant that, out of his $119 payment, about $114 went to pay finance charges and only $5 went to reducing his principal debt. As shown in Exhibit 4, despite his making payments totaling $1,300 over twelve months, Mr. Glasshof found that, due to high interest rates and excessive fees, his credit card debt did not go down at all. Later, after the Subcommittee asked about his account, Chase suddenly lowered the interest rate to 6%. That meant, over a one year period, Chase had applied four different interest rates to his closed credit card account: 15%, 17%, 27%, and 6%, which shows how arbitrary those rates are.

Then there is Bonnie Rushing of Naples, Florida. For years, she had paid her Bank of America credit card on time, providing at least the minimum amount specified on her bills. Despite her record of on-time payments, in 2007, Bank of America nearly tripled her interest rate from 8 to 23%. The Bank said that it took this sudden action, because Ms. Rushing's FICO credit score had dropped. When we looked into why it had dropped, it was apparently because she had opened Macy's and J.Jill credit cards to get discounts on purchases. Despite paying both bills on time, the automated FICO system had lowered her credit rating, and Bank of America had followed suit by raising her interest rate by a factor of three. Ms. Rushing closed her account and complained to the Florida Attorney General, my Subcommittee, and her card sponsor, the American Automobile Association. Bank of America eventually restored the 8% rate on her closed account.

In addition to these three consumers who testified at the hearing, the Subcommittee presented case histories for five other consumers who experienced substantial interest rate increases despite complying with their credit card agreements. The facts of these cases, as well as details related to the Hard, Glasshof and Rushing case histories, are set forth in Exhibit 5.

I'd also like to note that, in each of these cases, the credit card issuer told our Subcommittee that the cardholder had been given a chance to opt out of the increased interest rate by closing their account and paying off their debt at the prior rate. But each of these cardholders denied receiving an opt-out notice, and when several tried to close their account and pay their debt at the prior rate, they were told they had missed the opt-out deadline and had no choice but to pay the higher rate. Our Subcommittee examined copies of the opt-out notices and found that some were filled with legal jargon, were hard to understand, and contained procedures that were hard to follow. One example, a full four pages long, is shown in Exhibit 6. When we asked the major credit card issuers what percentage of persons offered an opt-out actually took it, they told the Subcommittee that 90% did not opt out of the higher interest rate – a percentage that is contrary to all logic and strong evidence that current opt-out procedures don't work.

The case histories presented at our hearings illustrate only a small portion of the abusive credit card practices going on today. Since early 2007, the Subcommittee has received letters and emails from thousands of credit card cardholders describing unfair credit card practices and asking for help to stop them, more complaints than I have received in any investigation I've conducted in more than 25 years in Congress. The complaints stretch across all income levels, all ages, and all areas of the country.

The Need for Legislation

In 2006, Americans used 700 million credit cards to buy $1.8 trillion in goods and services. The average family now has 5 credit cards. Credit cards are being used to pay for groceries, mortgage payments, even taxes. And they are saddling U.S. consumers, from college students to seniors, with a mountain of debt. The latest figures show that U.S. credit card debt is now approaching $1 trillion. These consumers are routinely being subjected to unfair practices that squeeze them for ever more money, sinking them further into debt. It's long past time to enact legislation to protect them.

That's why I introduced the Stop Unfair Practices in Credit Cards Act, S. 1395, a summary of which is contained in Exhibit 7. Senator Claire McCaskill joined me in that introduction, and so far the bill has ten cosponsors. It has also been introduced in the House as H.R. 5280 by Representative Lincoln Davis, a member of this Subcommittee. Our bill has also been strongly endorsed by consumer groups, labor unions, and the National Small Business Association. In the Senate, it has been referred to the Senate Banking Committee, which is chaired by Senator Chris Dodd, a longtime champion of credit card issues. Senator Dodd has introduced credit card legislation in the past and is working on the issue again this Congress.

There is significant overlap between my bill and the Maloney-Frank bill being considered today, including provisions which would:

- prohibit the charging of interest on debt that is paid on time;
- prohibit the charging of so-called "trailing interest" -- that is, interest charged between the time that a bill is sent out requesting payment and the date on which the bill is paid; and
- prohibit interest rate increases on cardholders who pay their bills on time, a practice that is sometimes referred to as universal default.

There are also some provisions in the Maloney-Frank bill that are not in my bill, but which are important and should be enacted into law, including the following:

- provisions to end the credit card billing games that go on today, by requiring bills to be sent out at least 25 days before payment is due, requiring the acceptance of payments up until 5:00 p.m. on the due date, and creating a presumption that payments mailed 7 days before a due date are on time;
- provisions requiring a 45-day notice period before a higher interest rate can take effect; and
- provisions to limit the ability of subprime credit cards to surprise consumers with high fees.

There are also some unfair practices addressed in my bill that are not addressed in the Maloney-Frank bill, and that I encourage this Subcommittee to consider adding to its legislation.

- **No Interest on Fees.** The Levin-McCaskill bill would stop credit card issuers from charging interest on their fees. It's one thing for a credit card issuer to collect interest on money that was lent to the cardholder at his or her request, but it is totally different to assess interest on penalty and transaction fees that the credit card issuer has imposed on cardholders and is requiring them to pay out of pocket.

- **No Retroactive Interest Rates.** The Levin-McCaskill bill would also prohibit credit card issuers from hiking an interest rate and then applying it to pre-existing credit card debt. No other type of consumer lending allows the lender to re-write the terms of an earlier lending agreement, especially by increasing a previously agreed-to interest rate on an existing debt. Credit card companies should not be allowed to engage in this practice either.

- **7 Percentage Point Cap on Penalty Interest Rates.** The Levin-McCaskill bill would also put a cap on how much an interest rate can be increased if a cardholder misses a payment or exceeds a credit limit. Under the bill, penalty interest rates could not increase more than seven percentage points over the prior rate. I believe seven percentage points is a more than a fair increase. The concept of an interest rate cap is taken from the practice now followed in some adjustable rate mortgages that place a ceiling on how much the interest rate can increase. A seven percentage point cap would allow issuers to impose a substantial penalty, while protecting cardholders from outrageous increases for what are often minor infractions.

- **Applying Consumer Payments.** Another provision involves consumer payments. Right now, all credit card issuers apply consumer payments first to the debt with the least expensive interest rate. The Levin-McCaskill bill would flip that practice, and require payments to be applied first to the debts with the most expensive interest rates. The Maloney-Frank bill would split the difference by requiring a pro rata allocation of payments to balances with different interest rates. While that approach is an improvement over the status quo, it is more complicated than our approach and less favorable to consumers who are often saddled with debts carrying extremely high interest rates of 20, 25 and even 32% and ought to be allowed to pay those debts off first.

- **No Pay-to-Pay Fees.** Still another provision in the Levin-McCaskill bill would stop credit card issuers from charging cardholders a fee to pay their bills, such as a fee to pay a bill by the Internet or telephone. Charging folks a fee to pay their bills on time is a travesty, it provides an unjustified windfall to credit card companies, and it shouldn't be allowed. I hope this Subcommittee will see fit to ban that practice in your bill.

Credit card issuers like to say that they are engaged in a risky business, lending unsecured debt to millions of consumers, but it is clear that they have learned to price credit card products in ways that produce enormous profit. For the last decade, credit card issuers have reported year after year of solid profits, maintained their position as the most profitable sector in the consumer lending field, and reported consistently higher rates of return than commercial banks. Credit card issuers make such a hefty profit that they sent out 5 billion pieces of mail last year soliciting people to sign up. With profits like those, credit card issuers can afford to give up abusive practices that treat consumers unfairly.

In closing, while the remaining legislative days in this Congress are dwindling, there is still time to enact tough credit card reform legislation. U.S. families have incurred credit card debt that now reaches a total of nearly $1 trillion. Too many of these families are being hurt by too many unfair credit card practices to delay action any longer. Credit card companies are piling on excessive fees, charging interest on debt that is paid on time, hiking interest rates even for consumers who faithfully pay their bills every month, applying higher rates retroactively to pre-existing credit card debt, and engaging in other unfair practices that attempt to squeeze more money out of even the most responsible cardholders. I commend this Subcommittee for tackling credit card reform and taking the steps needed to ban unfair practices that are causing so much pain and financial damage to American families today.

I ask unanimous consent to include in the hearing record the seven exhibits referred to in my statement.

Exhibits to accompany the Prepared Testimony of
Senator Carl Levin
Chairman, Senate Permanent Subcommittee on Investigations

Before the
House Financial Services Subcommittee on Financial Institutions and Consumer Credit

April 17, 2008

1. *Summary of Wes Wannamacher Account (March 2001 to February 2007)*, prepared by the Permanent Subcommittee on Investigations and used in a March 2007 Subcommittee hearing.

2. *Example of Interest Charges on Credit Card Debt that has Already Been Paid,* prepared by the Permanent Subcommittee on Investigations and used in a March 2007 Subcommittee hearing.

3. *Summary of Janet Hard Account (November 2006 to October 2007)*, prepared by the Permanent Subcommittee on Investigations and used in a December 2007 Subcommittee hearing.

4. *Summary of Milard Glasshof Account (November 2006 to October 2007)*, prepared by the Permanent Subcommittee on Investigations and used in a December 2007 Subcommittee hearing.

5. *Credit Card Case Histories: Eight Examples of Unfair Interest Rate Increases*, prepared by the Permanent Subcommittee on Investigations and used in a December 2007 Subcommittee hearing.

6. *Bank of America Change in Terms Notice for Bonnie Rushing account,* submitted to the Permanent Subcommittee on Investigations and used in a December 2007 Subcommittee hearing.

7. *Summary of S. 1395, The Stop Unfair Practices in Credit Cards Act.*

Summary of Wannemacher Account

(March 2001 to February 2007)

Total purchases:	$3,200
Total interest charges:	$4,900
Total over-limit charges:	$1,500
Total late fees:	$1,100
Total charges as of February 2007:	$10,700
Total payments:	$6,300
Owed as of February 2007:	$4,400

Prepared by the Permanent Subcommittee on Investigations Staff, March 2007

Testimony of Senator Carl Levin

EXHIBIT #1

EXAMPLE OF INTEREST CHARGES ON CREDIT CARD DEBT THAT HAS ALREADY BEEN PAID

January

Jan. 15	Amount owed from prior month:	$0
Jan. 31	New Jan. purchases:	$0
	Bill sent for Dec. purchases:	$5,020
	Bill due date is Feb. 15	

February

Feb. 15	Payment made on due date:	$5,000
Feb. 28	New Feb. purchases:	$0
	Bill sent for Jan. purchases:	$55.13

Charges include:
–$20 past due;
–17.99% interest on $5,020,
Feb. 1-14, compounded daily ($34.75)
–17.99% interest on $20,
Feb. 15-28, compounded daily ($0.38)

Bill due date is March 15

March

March 15	Payment made on due date:	$55.13
March 31	New March purchases:	$100
	Bill sent for Feb. purchases:	$100.38

Charges include:
–$100 in new purchases;
–17.99% interest rate
on $55.13, March 1-15,
compounded daily ($0.38)

Prepared by U.S. Senate Permanent Subcommittee on Investigations, March 2007

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EXHIBIT #2

Summary of Janet Hard Account

(November 2006 to October 2007)

Owed as of October 2006:	$8,330
Total interest charges:	$1,900
Total purchases:	$100
	$10,330
Total payments:	$2,400
Owed as of October 2007:	$7,980
Total reduction in debt after one year:	$350

Source: Discover credit card statements. Figures have been rounded.
Prepared by U.S. Senate Permanent Subcommittee on Investigations, December 2007

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EXHIBIT #3

Summary of Millard Glasshof Account

(November 2006 to October 2007)

Owed as of October 2006:	$4,800
Total interest charges:	$1,100
Total fees:	$200
Total purchases:	$0
	$6,100
Total payments:	$1,300
Owed as of October 2007:	$4,800
Total reduction in debt after one year:	$0

Source: Chase credit card statements. Figures have been rounded.
Prepared by U.S. Senate Permanent Subcommittee on Investigations, December 2007

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EXHIBIT #4

Credit Card Case Histories:
Eight Examples of Unfair Interest Rate Increases

The following eight case histories are the result of a bipartisan investigation of the U.S. Senate Permanent Subcommittee on Investigations into unfair credit card practices. These histories detail the experiences of individual consumers who paid their credit card bills in compliance with the terms set by their credit card issuers, but whose interest rates were nevertheless increased. Each case history includes a brief description of the cardholder and circumstances surrounding the interest rate increase, as well as a chart with specific data related to their credit card account.

The data contained in these charts is taken from the credit card billing statements sent to the cardholders. Because purchases made in one month typically appear on the billing statement sent out in the next month, the charts synthesize data from two consecutive billing statements. The first three columns of the chart identify the month in which the closing date occurs for purchases that were or could have been made on the credit card, the interest rate applicable to such purchases, and the total amount of purchases actually made during the billing month. The next three columns identify the total amount of funds paid by the cardholder each month, and show how much of that payment went to pay for fees or interest charges and how much to reduce the cardholder's actual debt. The final column of the chart shows the cardholder's overall balance – the entire debt owed on the credit card – after the payment was made.

Here is a sample chart for illustration:

ABC Credit Card **Credit Limit: $4,500, increased to $5,500 in 2/07**

Transaction Period	Interest Rate	Purchases	Applicable Payment	Amount Paid Toward: Interest and Fees	Amount Paid Toward: Reduction in Principal	Balance after Payment
Jan. '07	10.00%	$100.00	$300.00	$135.00*	$165.00	$5,000.00
Feb. '07	15.00%	$0.00	$300.00	$179.00**	$121.00	$4,879.00

*Includes $39 over-the-limit fee.
**Includes $39 late fee.

Explanation: In January 2007, the cardholder purchased $100 worth of goods. The interest rate applicable at that time was 10% and the credit limit was $4,500. After receiving a credit card bill in the subsequent month, the cardholder made a payment of $300, of which $135 was used to pay a $39 over-the-limit fee and $96 in interest charges on pre-existing credit card debt, leaving $165 to reduce the overall debt. The resulting balance owed by the consumer after making the $300 payment was $5,000. In February 2007, the cardholder made no new purchases. That same month, the interest rate was increased to 15%, and the credit limit was raised to $5,500. The cardholder received the billing statement in the subsequent month and paid $300 after the due date. Of that $300, $179 was used to pay a $39 late fee and $140 in interest charges, leaving $121 to reduce the principal debt. Subtracting $121 from $5,000 leaves a total balance owing of $4,879. (Note: If purchases had been made during February, the cost would have been added to the new balance total shown for the month.)

Prepared by the U.S. Senate Permanent Subcommittee on Investigations, December 2007

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EXHIBIT #5

Case History No. 1: Janet Hard
Freeland, Michigan

Janet Hard is a 42 year old registered nurse. She is married, with two children, and her husband works as a steamfitter. She has a credit card with Discover, which she has not used to make purchases in over a year other than to make an $8 monthly payment for high speed Internet access. She makes regular monthly payments of $200 to pay off an existing debt on the card of about $8,500. Ms. Hard has never made a late payment or exceeded her credit limit on the Discover card, and always paid at least the minimum amount due.

In May 2006, Discover increased Ms. Hard's interest rate from about 18% to 24%. Ms. Hard did not realize her interest rate had been increased until later when she saw that her debt was not decreasing and went back to look at her billing statements a second time. After she complained, Discover lowered the interest rate to about 21%.

When she called Discover, Ms. Hard was told that her interest rate had been increased, because her credit card debt was too near her credit limit, she had too many credit cards, and she had delinquencies on credit cards at other companies. Ms. Hard is unable to explain these concerns, since she and her husband have always been careful to meet their credit obligations. When questioned by the Subcommittee, Discover explained that a credit bureau had reduced Ms. Hard's FICO credit score which, in turn, had caused the bank's automated system to impose a higher interest rate on her card. The bank did not know what specific events had triggered the lower credit score, other than the general reasons cited above which were supplied by the credit bureau. Discover also admitted that, despite increasing Ms. Hard's interest rate because she supposedly posed a greater credit risk, it raised her credit limit, in August 2007, from $10,000 to $11,000.

Discover applied the increased interest rate to Ms. Hard's existing credit card debt. In February 2006, under the 18% interest rate, out of her $200 monthly payment, about $148 went to pay for finance charges and $52 went to pay down her principal debt. In February 2007, under the 24% interest rate, $176 went to finance charges and only about $24, less than half the amount previously, went to pay down the principal debt.

Over the last year, Ms. Hard has charged less than $100 on her Discover card, incurred interest rates of 21% to 24%, and paid Discover a total of $2,400. Despite this year of steady payments, her November 2006 debt of about $8,300 fell by just $350 and, as of October 2007, she still owed Discover nearly $8,000.

Janet Hard
Freeland, Michigan

Discover Card **Credit Limit: $10,000, increased to $11,000 in 8/07**

				Amount Paid Toward:		
Transaction Period	**Interest Rate**	**Purchases**	**Applicable Payment**	**Interest and Fees***	**Reduction in Principal**	**Balance after Payment**
Feb. '06	17.99%	$273.34	$200.00	$148.31	$51.69	$9,428.64
March '06	18.24%	$159.52	$225.00	$136.91	$88.09	$9,500.07
April '06	23.74%	$7.95	$1,500.00	$197.88	$1,302.12	$8,205.90
May '06	23.74%	$7.95	$300.00	$188.40	$111.60	$8,102.25
June '06	23.99%	$15.11	$200.00	$172.48	$27.52	$8,089.84
July '06	24.24%	$7.95	$200.00	$166.11	$33.89	$8,063.90
Aug. '06	24.24%	$324.96	$200.00	$178.19	$21.81	$8,367.05
Sept. '06	24.24%	$7.95	$193.00	$177.50	$15.50	$8,359.50
Oct. '06	24.24%	$7.95	$200.00	$171.81	$28.19	$8,339.26
Nov. '06	24.24%	$7.95	$200.00	$177.19	$22.81	$8,324.40
Dec '06	24.24%	$7.95	$200.00	$171.23	$28.77	$8,303.58
Jan. '07	24.24%	$7.95	$200.00	$176.45	$23.55	$8,287.98
Feb. '07	24.24%	$7.95	$200.00	$176.13	$23.87	$8,272.06
March '07	24.24%	$7.95	$200.00	$158.70	$41.30	$8,238.71
April '07	24.24%	$7.95	$200.00	$175.23	$24.77	$8,221.89
May '07	24.24%	$7.95	$200.00	$169.17	$30.83	$8,199.01
June '07	20.99%	$7.95	$200.00	$150.95	$49.05	$8,157.91
July '07	20.99%	$8.91	$200.00	$145.10	$54.90	$8,111.92
Aug. '07	20.99%	$7.95	$200.00	$149.27	$50.73	$8,069.14
Sept. '07	20.99%	$7.95	$200.00	$148.50	$51.50	$8,025.59
Oct. '07	20.99%	$7.95	$200.00	$142.88	$57.12	$7,976.42

*No late or over-the-limit fees were charged.

Case History No. 2: Millard Glasshof
Milwaukee, WI

Millard Glasshof is an 81-year-old retired engineer living on a fixed income. He has had one credit card for many years, administered first by Wachovia, then Bank One, and, since 2005, by Chase after it purchased Bank One. Mr. Glasshof has not used this card to make purchases since 2001, instead making monthly payments to reduce a debt which at its height was about $6,400.

From 2001-2003, Mr. Glasshof participated in several Bank One payment programs that, after closing his account, allowed him to pay down his debt using a low interest rate. He did not always complete these programs successfully, but continued to reduce his debt. In 2003, after he missed one or more payments, Bank One increased his interest rate to 15%. For the next four years, until recently, Mr. Glasshof made regular payments of $119 per month to reduce his debt. His bank statements show, for example, that he has not missed a single payment in over two years. Although $119 is less than the minimum specified on his billing statements, Chase did not charge him a late fee. Chase did, however, charge him multiple over-the-limit fees, since his debt exceeded the card's $4,500 credit limit. In March 2007, Chase stopped these fees after discontinuing its policy of charging unlimited over-the-limit fees in response to a single overage.

In December 2006, Chase increased his interest rate to 17%. In February 2007, Chase increased it again to 27%. When Mr. Glasshof called Chase to ask why, he told the Subcommittee he was not given a satisfactory explanation, especially since his circumstances were unchanged. When questioned by the Subcommittee, Chase explained that a special automated initiative to "clean up" closed accounts had flagged his account due to a low credit score and caused the December interest rate increase. Chase said the February increase occurred, because Mr. Glasshof "had failed to bring his balance below his credit limit," even though that had been true for more than six years, it was Chase's interest charges and fees that were keeping him above the limit, and he was in excess of the limit by only $300.

Chase applied the 27% rate to Mr. Glasshof's existing credit card debt. Prior to the increase, out of his monthly $119 payment, about $92 went to pay for finance charges and $27 to pay down the principal debt. After the increase, about $114 went to finance charges and only $5 went to pay down the principal debt.

Over the last twelve months, Mr. Glasshof made payments to Chase totaling roughly $1,300. Despite this year of steady payments, due to high interest rates and fees, his October 2006 debt of about $4,800 did not decline at all.

In August 2007, Mr. Glasshof received a letter telling him his minimum payment would change. Because the letter was confusing and difficult to read, he called Chase and was advised to change his minimum payment to $111. After making this payment, Mr. Glasshof was assessed a late fee of $39 on top of his interest charges, apparently because he should have made a larger payment. In response, he took out a personal loan and completely paid off his Chase credit card. What he did not know is that, the same month he took out the loan, Chase had lowered his credit card interest rate to 6%.

Millard Glasshof
Milwaukee, WI

Chase **Credit Limit: $4,500**

Transaction Period	Interest Rate	Purchases	Applicable Payment	Amount Paid Toward: Interest and Fees	Amount Paid Toward: Reduction in Principal	Balance after Payment
Jan. '06	14.99%	$0.00	$119.00	$96.89*	$22.11	$5,187.73
Feb. '06	14.99%	$0.00	$119.00	$96.67*	$22.33	$5,165.40
March '06	14.99%	$0.00	$119.00	$89.96*	$29.04	$5,136.36
April '06	14.99%	$0.00	$119.00	$96.07*	$22.93	$5,113.43
May '06	14.99%	$0.00	$119.00	$93.78*	$25.22	$5,088.21
June '06	14.99%	$0.00	$119.00	$95.35*	$23.65	$5,064.56
July '06	14.99%	$0.00	$119.00	$63.37	$55.63	$5,008.93
August '06	14.99%	$0.00	$119.00	$64.77	$54.23	$4,954.70
Sept. '06	14.99%	$0.00	$119.00	$64.41	$54.59	$4,900.11
Oct. '06	14.99%	$0.00	$119.00	$61.68	$57.32	$4,842.79
Nov. '06	14.99%	$0.00	$119.00	$91.82*	$27.18	$4,815.61
Dec. '06	17.24%	$0.00	$119.00	$115.76*	$3.24	$4,812.37
Jan. '07	17.24%	$0.00	$119.00	$118.51*	$0.49	$4,811.88
Feb. '07	27.24%	$0.00	$119.00	$153.13*	-$34.13	$4,846.01
March '07	27.24%	$0.00	$119.00	$104.10	$14.90	$4,831.11
April '07	27.24%	$0.00	$119.00	$114.57	$4.43	$4,826.68
May '07	27.24%	$0.00	$119.00	$110.06	$8.94	$4,817.74
June '07	27.24%	$0.00	$119.00	$114.08	$4.92	$4,812.82
July '07	27.24%	$0.00	$119.00	$110.38	$8.62	$4,804.20
August '07	27.24%	$0.00	$111.00	$113.67	-$2.67	$4,806.87
Sept. '07	26.74%	$0.00	$111.00	$151.12**	-$40.12	$4,846.99
Oct. '07	6.00%	$0.00	Loan taken			$0.00

*Includes over-the-limit fee of $29 or $39.

**Includes late fee of $39.

Case History No. 3: Bonnie Rushing
Naples, Florida

Bonnie Rushing has been employed as a corporate paralegal for many years. Her husband is a retired engineer. She has two Bank of America credit cards, one of which is affiliated with the Automobile Association of American ("AAA"). For years, both cards carried an interest rate of about 8%. Ms. Rushing has never made a late payment or exceeded the credit limit on either card, and always paid at least the minimum amount due. In April 2007, Bank of America nearly tripled the interest rate on the AAA card, increasing it from 8% to 23%.

Ms. Rushing first noticed the increase on her April billing statement. She called the bank, which said that she had failed to take advantage of a change-in-term notice mailed earlier that would have allowed her to reject the increase, close her account, and pay the debt at the old rate. Ms. Rushing explained that she never received the notice and noted that when a similar notice had been sent to her in 2004, she had responded in a timely manner and kept her prior rate. Ms. Rushing told the Subcommittee that, in two conversations, bank personnel pressed her to agree to a rate lower than 23% but higher than her 8% rate. When she refused and Bank of America declined to restore her prior rate, Ms. Rushing sent a letter of complaint to the Florida Attorney General who forwarded it to Bank of America's primary federal regulator. Ms. Rushing also asked AAA to close her account. AAA intervened on her behalf, and Bank of America agreed to apply the prior 8% rate to her closed account. The bank informed its regulator that it had resolved Ms. Rushing's complaint about its conduct.

Ms. Rushing asked the bank why her interest rate had been increased, and was told that her debt was too high compared to her credit limit, even though her debt level had not substantially changed in months and had been higher in the past when the bank allowed her to cash a $2,500 credit card check. When questioned by the Subcommittee, Bank of America explained that a credit bureau had reduced Ms. Rushing's credit score which, in turn, had caused the bank's automated system to impose a higher interest rate on the card in question, though not the second card which retained its 8% rate. The bank did not know what specific events triggered the lower credit score. Ms. Rushing speculated that her credit score may have been affected when, in January and March 2007, she opened Macy's and J. Jill credit cards to obtain discounts on purchases of cosmetics and clothes. She has since closed both accounts.

Bank of America applied the 23% interest rate to Ms. Rushing's existing debt on her AAA card, increasing her finance charges substantially. Under the prior interest rate, her finance charges were in the range of $150 each month. Under the 23% rate, her finance charges were in the range of $450, three times greater. When the bank closed her account and restored her prior rate, it also refunded about $600 in interest charges from just the two months the higher rate had been in effect.

Bonnie Rushing
Naples, Florida

Bank of America (AAA) **Credit Limit: $ 24,100**

Transaction Period	Interest Rate	Purchases	Applicable Payment	Amount Paid Toward: Interest and Fees	Amount Paid Toward: Reduction in Principal	Balance after Payment
Oct. '06	7.90%	$0.00	$400.00	$141.54	$258.46	$21,219.29
Nov. '06	7.90%	$2,500.00*	$400.00	$202.26**	$197.74	$23,521.55
Dec. '06	7.90%	$0.00	$390.00	$149.83	$240.17	$23,281.38
Jan. '07	7.90%	$0.00	$400.00	$163.66	$236.34	$23,045.04
Feb. '07	7.90%	$550.00 (medical)	$400.00	$155.42	$244.58	$23,350.46
March '07	7.90%	$0.00	$395.00	$153.83	$241.17	$23,109.29
April '07	22.90%	$0.00	$680.00	$443.71	$236.29	$22,873.00
May '07	22.90%	$0.00	$700.00	$459.00	$851.68***	$22,021.32
June '07	7.99%	$0.00	$400.00	$156.39	$243.61	$21,777.71
July '07	7.99%	$0.00	$400.00	$145.23	$254.77	$21,522.94
August '07	7.99%	$0.00	$400.00	$148.20	$251.80	$21,271.14

* Used credit card check to obtain this amount from Bank of America.
**Includes $50 fee for using the credit card check.
No late or over-the-limit fees were charged.
***Includes $610.68 refunded by bank for past interest charges under 23% rate.

Case History No. 4: Gayle Corbett
Seattle, Washington

Gayle Corbett works full time at the Seattle courthouse. She has multiple credit cards, keeps careful track of the amounts she owes, and pays her bills on time, providing more than the minimum due each month. In 2007, despite her regular payments, the interest rates were increased on her credit cards with Bank of America, Citi Card, and Capital One.

Bank of America increased her interest rate in August 2007, from 15% to 24%, because a credit bureau had lowered her credit score. After the Subcommittee inquired about the account, the bank reduced her rate to 10%, and she agreed to suspend new purchases until she reduced her debt on the card. In January 2007, Citi Card more than doubled her interest rate, from 11% to 23%. This increase was also due to a lower credit score. Citi announced the next month, in March 2007, that it would no longer increase cardholder interest rates due to lower credit scores unrelated to Citi Card activity, but still declined to restore Ms. Corbett's prior rate. In September, in response to Ms. Corbett's request and an improved credit score, Citi reduced her rate to 19%, still 8% above her original rate. At the same time, Citi increased her credit limit by nearly $2,500.

In September 2007, Capital One increased Ms. Corbett's interest rate from 15% to 19%. Capital One's increase was not due to a lower credit score, but because the bank had decided to pass on its borrowing costs to its cardholders. Ms. Corbett's account was selected by Capital One's automated system, because it had not had an interest rate increase in three years and carried what the bank characterized as a "below market" interest rate. After she complained, Capital One agreed to close her account, restore her prior 15% rate, and credit her account with the excess finance charges imposed earlier.

In twelve months, Ms. Corbett was subjected to interest rate increases on three credit cards, even though she was meeting her credit card obligations. As she contested each increase, her cards were assigned a wide range of interest rates, from 10% to 23%. Her interest rates have settled for the moment at 10%, 19% and 15%, but are subject to further increases by the credit card issuers.

Each of the higher interest rates was applied to Ms. Corbett's credit card debt, increasing her finance charges. In December 2006, for example, prior to the increases, she made monthly payments on all three cards totaling $530, of which $193 went to pay for finance charges. By August 2007, out of monthly payments totaling $580, about $350 went to pay for finance charges, substantially more than previously.

Ms. Corbett told the Subcommittee, "I owe this money. I'm willing to pay my debts – just don't make it harder for me." She said that contesting the three interest rate increases in 2007, none of which were her fault and all of which threatened her ability to repay her debts, had left her exhausted and worried about what would happen next.

Gayle Corbett
Seattle, Washington

Bank of America **Credit Limit: $9,000**

Transaction Period	Interest Rate	Purchases	Applicable Payment	Amount Paid Toward: Interest and Fees*	Amount Paid Toward: Reduction in Principal	Balance after Payment
Oct. '06	15.24%	$23.99	$206.00	$122.25	$83.75	$8,368.13
Nov. '06	15.24%	$0.00	$190.00	$102.52	$87.48	$8,280.65
Dec. '06	15.24%	$0.00	$185.00	$98.95	$86.05	$8,194.60
Jan. '07	15.24%	$326.54	$205.00	$120.25	$84.75	$8,436.39
Feb. '07	15.24%	$26.75	$186.00	$100.90	$85.10	$8,378.04
March '07	15.24%	$157.15	$200.00	$114.87	$85.13	$8,450.06
April '07	15.24%	$26.75	$190.00	$104.62	$85.38	$8,391.43
May '07	15.24%	$54.96	$195.00	$107.62	$87.38	$8,359.01
June '07	15.24%	$200.31	$201.00	$115.77	$85.23	$8,474.09
July '07	15.24%	$26.77	$193.00	$108.93	$84.07	$8,416.79
August '07	23.99%	$200.32	$270.00	$177.39	$92.61	$8,524.50
Sept. '07	9.99%	$0.00	$160.00	$71.61	$88.39	$8,436.11

AT&T Universal/Citi **Credit Limit: $7,100 increased to $9,590 in Sept. 2007**

Transaction Period	Interest Rate	Purchases	Applicable Payment	Amount Paid Toward: Interest and Fees*	Amount Paid Toward: Reduction in Principal	Balance after Payment
Oct. '06	10.81%	$174.30	$130.00	$58.69	$71.31	$6,746.80
Nov. '06	10.81%	$64.99	$140.00	$65.60	$74.40	$6,737.39
Dec. '06	10.84%	$74.87	$260.00	$61.10	$198.90	$6,613.36
Jan. '07	23.31%	$174.54	$201.28	$132.28	$69.00	$6,718.90
Feb. '07	23.31%	$134.31	$208.00	$138.42	$69.58	$6,783.63
March '07	23.31%	$0.00	$200.00	$129.05	$70.95	$6,712.68
April '07	23.31%	$0.00	$201.00	$132.26	$68.74	$6,643.94
May '07	23.31%	$0.00	$212.00	$144.19	$67.81	$6,576.13
June '07	23.31%	$0.00	$190.00	$120.80	$69.20	$6,506.93
July '07	23.31%	$0.00	$200.00	$132.39	$67.61	$6,439.32
August '07	23.52%	$0.00	$220.00	$136.60	$83.40	$6,355.92
Sept. '07	19.10%	$0.00	$165.00	$99.03	$65.97	$6,289.95
Oct. '07	18.52%	$0.00	**	$98.06	**	**

*No late or over-the-limit fees were charged.
** The November billing statement was not available at the time of this analysis.

Gayle Corbett
Seattle, Washington

Capital One — **Credit Limit: $3,000**

Transaction Period	Interest Rate	Purchases**	Applicable Payment	Amount Paid Toward: Interest and Fees*	Amount Paid Toward: Reduction in Principal	Balance after Payment
Oct. '06	14.90%	$37.63	$85.00	$35.41	$49.59	$2,779.09
Nov. '06	14.90%	$5.00	$90.00	$37.41	$52.59	$2,731.50
Dec. '06	14.90%	$5.00	$85.00	$33.41	$51.59	$2,684.91
Jan. '07	14.90%	$5.00	$81.00	$35.09	$45.91	$2,644.00
Feb. '07	14.90%	$104.03	$85.00	$35.49	$49.51	$2,698.52
March '07	14.90%	$134.11	$90.00	$32.88	$57.12	$2,775.51
April '07	14.90%	$5.00	$90.00	$36.34	$53.66	$2,726.85
May '07	14.90%	$5.00	$85.00	$34.48	$50.52	$2,681.33
June '07	14.90%	$101.74	$90.00	$44.62	$45.38	$2,737.69
July '07	14.90%	$84.68	$85.00	$36.09	$48.91	$2,773.46
August '07	14.90%	$5.00	$90.00	$35.98	$54.02	$2,724.44
Sept. '07	19.40%	$34.18	$85.00	$44.81	$40.19	$2,718.43
Oct. '07	14.90%	$0.00	***	$36.37	***	***

*No late or over-the-limit fees were charged.
**Includes monthly $5 payment toward $60 Capital One annual credit card fee.
***Capital One will refund past interest charges on the November billing statement. This statement was not available at the time of this analysis.

Case History No. 5: Agnes Holmes
Montgomery, Alabama

Agnes Holmes considers herself a loyal Chase customer; she has two Chase credit cards, one with MasterCard and the other with Visa. Ms. Holmes takes care to stay below the credit limit, always pays the requested amount due, and takes pride in paying her credit card bills on the same day she receives them. Despite her history of on-time payments, in May 2007, Chase increased the interest rate on her Visa card from 19% to 30%.

Ms. Holmes called Chase and asked for her prior rate to be restored but was told that the 30% rate could not be reduced. When questioned by the Subcommittee, Chase explained that Ms. Holmes' credit score had been lowered by a credit bureau which, in turn, had caused the bank's automated system to impose a higher interest rate on her card. The bank did not know what specific events triggered the lower score, other than the general reason provided by the credit bureau that the cardholder had engaged in excessive utilization of her available credit, even though none of her accounts exceeded her credit limits. Ms. Holmes told the Subcommittee that she had not been informed that her credit score was a factor in raising her interest rate, and she had paid all her bills on time for years. In addition, because Ms. Holmes employs a service that tracks her credit reports to prevent identity theft and indicates her credit score each quarter, she provided materials showing that, for the quarters before, during and after the month her interest rate was increased, her credit score had not fallen but remained at or above 700.

Chase applied the 30% interest rate to Ms. Holmes' existing credit card debt, increasing her monthly finance charges. Under the 19% rate, in March 2007, out of a monthly payment of $125, about $75 went to pay for finance charges. After the increase, under the 29% rate, out of a payment of $165 in May 2007, about $118 went to finance charges.

In September, Ms. Holmes informed Chase that she had contacted the Subcommittee about her account. In October, the bank informed her that it would lower the interest rate on her credit card to a 13% fixed rate and credit her account with the full amount of the finance charges imposed earlier.

Agnes Holmes
Montgomery, Alabama

Chase **Credit Limit: $5,000**

Transaction Period	Interest Rate	Purchases	Applicable Payment	Amount Paid Toward: Interest and Fees*	Amount Paid Toward: Reduction in Principal	Balance after Payment
Sept. '06	18.99%	$0.00	$0.00	$0.00	$0.00	$0.00
Oct. '06	18.99%	$2,946.47	$100.00	$0.00	$100.00	$2,846.47
Nov '06	18.99%	$1,253.95	$125.00	$79.86	$45.14	$4,055.28
Dec '06	18.99%	$715.64	$125.00	$76.77	$48.23	$4,722.69
Jan '07	18.99%	$0.00	$125.00	$77.37	$47.63	$4,675.06
Feb '07	18.99%	$0.00	$125.00	$69.19	$55.81	$4,619.25
March '07	18.99%	$0.00	$125.00	$75.75	$49.25	$4,570.00
April '07	18.99%	$0.00	$120.00	$72.47	$47.53	$4,522.47
May '07	29.99%	$0.00	$165.00	$117.74	$47.26	$4,475.21
June '07	29.99%	$0.00	$160.00	$112.75	$47.25	$4,427.96
July '07	29.99%	$0.00	$160.00	$115.54	$44.46	$4,383.50
August '07	29.99%	$0.00	$160.00	$114.38	$45.62	$4,337.88
Sept. '07	29.99%	$0.00	$155.00	$109.55	$45.45	$4,292.43
Oct. '07	12.99%**	$0.00	***	$45.83	***	***

* No late or over-the-limit fees were charged.

** Statement lists the 12.99% as a "promotional" rate and 29.99% as interest rate applicable to purchases.

*** Chase will refund past interest charges on the November billing statement. This statement was not available at the time of this analysis.

Case History No. 6: Linda Fox
Circleville, Ohio

Linda Fox is a working grandmother who has been employed by the same large company for 25 years. She has had a Capital One credit card for over ten years, has never made a late payment or exceeded her credit limit, and always paid at least the minimum amount due. In April 2007, Capital One increased her interest rate from 8% to 13%.

Ms. Fox first noticed the increase when she saw her May billing statement. She called the bank, which said she had failed to take advantage of a change-in-term notice mailed earlier that would have allowed her to reject the increase, close her account, and pay her debt at the old rate. Ms. Fox explained that she had never received the notice. Capital One declined to reduce the rate and told her that her account could be placed in a "closing status" but would still be subject to the new 13% interest rate.

When questioned by the Subcommittee, Capital One explained that it had increased Ms. Fox's interest rate, not because she was at fault, but because the bank had decided to pass on its borrowing costs to its cardholders. Capital One's automated system had selected Ms. Fox's account, because it had not had an interest rate increase in three years and had what the bank characterized as a "below market" interest rate. She was one of many Capital One accounts selected for an interest rate increase.

Capital One applied the increased interest rate to Ms. Fox's existing credit card debt. In January 2007, before the increase, out of her $600 payment, about $130 went to pay for finance charges. In June 2007, after the increase, out of her $600 payment, about $247 went to pay for finance charges, almost double the previous amount.

In November 2007, after Ms. Fox complained, Capital One agreed to allow her, beginning in her December billing statement, to close her account and repay her debt at the prior rate of 8%. Capital One also credited her account with the excess finance charges imposed earlier.

Linda Fox
Circleville, Ohio

Capital One **Credit Limit: $20,000**

Transaction Period	Interest Rate	Purchases	Applicable Payment	Amount Paid Toward: Interest and Fees*	Amount Paid Toward: Reduction in Principal	Balance after Payment
Oct. '06	7.90%	$163.08	$600.00	$123.38	$476.62	$17,846.54
Nov. '06	7.90%	$381.23	$852.06	$125.53	$726.53	$17,501.24
Dec. '06	7.90%	$1,131.57	$859.96	$122.68	$737.28	$17,895.53
Jan. '07	7.90%	$879.81	$600.00	$129.87	$470.13	$18,305.21
Feb. '07	7.90%	$612.24	$1,021.24	$129.52	$891.72	$18,025.73
March '07	7.90%	$965.91	$825.50	$117.77	$707.73	$18,283.91
April '07	12.90%	$837.11	$837.17	$214.60	$622.57	$18,498.45
May '07	12.90%	$377.19	$800.00	$207.09	$592.91	$18,282.73
June '07	12.90%	$0.00	$600.00	$246.86	$353.14	$17,929.59
July '07	12.90%	$0.00	$2,000.00	$201.53	$1,798.47	$16,131.12
August '07	12.90%	$0.00	$600.00	$186.14	$413.86	$15,717.26
Sept. '07	12.90%	$0.00	$500.00	$176.95	$323.05	$15,394.21
Oct. '07	12.90%	$0.00	$500.00	$167.25	$744.70**	$14,649.51
Nov. '07	7.90%	$0.00	***	$104.94	***	***

*No late or over-the-limit fees were charged.
**Includes $411.95 refunded by bank for past interest charges under 12.90% rate.
***Ms. Fox will pay her bill in December. The December billing statement was not available at the time of this analysis.

Case History No. 7: Marjorie Hancock
Arlington, Massachusetts

Marjorie Hancock is a retired financial director from an engineering firm and the mother of three grown children. She has four credit cards with Bank of America, one which she stopped using in May in order to pay down the debt; a second card she stopped using years ago and on which she has made steady payments to reduce the debt; a third which she uses occasionally; and a fourth which her son, a student enrolled in graduate school, uses for his school expenses as an authorized signer. In August, Bank of America increased the interest rate on the first credit card from 19% to 27%.

Ms. Hancock has never made a late payment or exceeded the limit on the card, and always paid more than the minimum amount due. She owed about $8,200 on that card, well below its credit limit of $15,000. She owed sums on the other three cards as well, but all were below their credit limit and all were being paid off in compliance with the terms of each card.

When Ms. Hancock called Bank of America to ask why her interest rate had increased, she was told that her credit card "utilization" was too high, even though her balances had not substantially changed in over a year. She was also told that she had "serious delinquencies" on cards with other companies, even though she is current on all her credit card obligations. When questioned by the Subcommittee, Bank of America explained that Ms. Hancock's credit score had been reduced by a credit bureau which, in turn, had caused the bank's automated system to impose a higher interest rate on the card in question. The bank did not know what specific events had triggered the lower score, other than the general reasons provided by the credit bureau and given to Ms. Hancock.

Ms. Hancock's four Bank of America credit cards now carry interest rates of 8%, 14%, 19%, and 27%, even though she poses the same credit risk on all four. Bank of America has declined to restore her prior rate on the credit card bearing the highest rate. At the same time, Bank of America regularly sends Ms. Hancock credit card checks which would allow her to incur additional debt.

Bank of America applied the 27% interest rate to Ms. Hancock's existing debt on her credit card, which substantially increased her finance charges. In July 2007, for example, when her interest rate was 19%, out of a $230 payment on the card, about $128 went to pay for finance charges. In August, after the increase to 27%, out of a payment of $300, about $200 went to finance charges, an increase of more than 50%.

Ms. Hancock noted that, in a telephone call, Bank of America personnel claimed the bank was "helping" her by increasing her interest rate. She wrote to the bank that it would help her more if the bank had lowered rather than increased her interest rate.

Marjorie Hancock
Arlington, Massachusetts

Bank of America **Credit Limit: $15,000**

Transaction Period	Interest Rate	Purchases	Applicable Payment	Amount Paid Toward: Interest and Fees*	Amount Paid Toward: Reduction in Principal	Balance after Payment
Nov. '06	18.24%	$140.10	$231.00	$132.13	$98.87	$8,857.17
Dec. '06	18.24%	$336.83	$250.00	$143.84	$106.16	$9,087.84
Jan. '07	18.24%	$176.38	$250.00	$147.11	$102.89	$9,161.33
Feb. '07	18.24%	$0.00	$300.00	$131.08	$168.92	$8,992.41
March '07	18.24%	$0.00	$270.00	$147.95	$122.05	$8,870.36
April '07	18.24%	$4.95	$235.00	$132.07	$102.93	$8,772.38
May '07	18.24%	$0.00	$500.00	$134.84	$365.16	$8,407.22
June '07	18.24%	$0.00	$225.00	$140.29	$84.71	$8,322.51
July '07	18.24%	$0.00	$230.00	$128.06	$101.94	$8,220.57
August '07	26.99%	$0.00	$300.00	$200.22	$99.78	$8,120.79
Sept. '07	26.99%	$0.00	$1,000.00	$181.12	$818.88	$7,301.91
Oct. '07	26.99%	$0.00	**	$173.03	**	**

*No late or over-the-limit fees were charged.
**The November billing statement was not available at the time of this analysis.

Case History No. 8: Donna Bernard
Dallas, Texas

Donna Bernard is an administrative assistant at a large corporation. She has multiple credit cards with substantial balances, keeps careful track of the amounts she owes, and pays her bills on time. She has not used one of her credit cards, from Chase, to make purchases since 2001, instead making steady monthly payments to reduce a debt of about $7,900. She has never made a late payment or exceeded her credit limit on the card, and always paid at least the minimum amount due. In December 2006, Chase nearly doubled her interest rate on the card, from about 15% to 29%.

When Ms. Bernard contacted Chase to find out why, she was told that the increase was because her "total bankcard balances have grown too fast," she had too many credit cards with high balances, and her credit card balances "are too high compared to total credit limits." Chase had apparently determined that these factors outweighed her history of making regular, on-time payments for years to reduce her Chase debt. When questioned by the Subcommittee, Chase explained further that a special automated initiative at the bank to "clean up" closed credit card accounts had flagged Ms. Bernard's account due to a low credit score provided by a credit bureau and imposed the December rate increase. Chase did not know what specific events triggered the lower score, other than the general reasons provided by the credit bureau which were given to Ms. Bernard.

Ms. Bernard was also told that she had missed the deadline to reject the increase, close her account, and pay the debt at the old rate. In discussing the matter, Ms. Bernard learned from bank personnel that the bank had closed her account to new purchases years earlier. Despite having closed her account in 2001, Chase declined to restore her prior interest rate, informing Ms. Bernard that closed accounts are not protected from interest rate increases.

Chase applied the 29% interest rate to the existing debt in her closed account, substantially increasing her monthly finance charges. In October 2006, for example, under the 15% rate, out of a $165 payment, about $100 went to pay for finance charges and $65 to pay down the principal debt. In January 2007, after the increase, out of a larger payment of $200, $199.75 went to pay finance charges, and just 25 cents went to pay down the principal debt.

Chase applied the new interest rate to Ms. Bernard's account for seven months. After she contacted the Subcommittee, Chase restored her 15% interest rate and credited her account with nearly $600 in interest charges imposed earlier. Chase set up the 15% as a "promotional rate" that would be replaced with a 29% rate if Ms. Bernard were to be late making a single payment.

Over the last twelve months, Ms. Bernard made payments on her Chase credit card totaling about $2,300. Despite this year of steady payments, her October 2006 debt of about $7,900 fell by only about $900 to just under $7,000.

Donna Bernard
Dallas, Texas

Chase **Credit Limit: $12,150**

Transaction Period	Interest Rate	Purchases	Applicable Payment	Amount Paid Toward: Interest and Fees*	Amount Paid Toward: Reduction in Principal	Balance after Payment
Oct. '06	14.99%	$0.00	$165.00	$100.03	$64.97	$7,896.58
Nov. '06	14.99%	$0.00	$159.00	$102.39	$56.61	$7,839.97
Dec. '06	29.24%	$0.00	$194.00	$193.73	$0.27	$7,839.70
Jan. '07	29.24%	$0.00	$200.00	$199.75	$0.25	$7,839.45
Feb. '07	29.24%	$0.00	$200.00	$199.34	$0.66	$7,838.79
March '07	29.24%	$0.00	$180.00	$179.55	$0.45	$7,838.34
April '07	29.24%	$0.00	$199.00	$198.79	$0.21	$7,838.13
May '07	29.24%	$0.00	$193.00	$192.54	$0.46	$7,837.67
June '07	29.24%	$0.00	$201.00	$200.31	$0.69	$7,836.98
July '07	14.99%**	$0.00	$146.00	$87.27***	$650.37****	$7,186.61
August '07	14.99%**	$0.00	$166.00	$93.24***	$72.76	$7,113.85
Sept. '07	14.99%**	$0.00	$164.00	$92.33***	$71.67	$7,042.18
Oct. '07	14.99%**	$0.00	$159.00	$88.33***	$70.67	$6,971.51

*No late or over-the-limit fees were charged.
**Statement lists the 14.99% as a "promotional" rate and 29.24% as the interest rate applicable to purchases.
***For July, figure includes $1.97 at 29.24% rate and $85.30 at 14.99% rate; for August through October, figures include $0.05 at 29.24% rate and remainder at 14.99%.
****Includes $591.64 refunded by bank for past interest charges under 29.24% rate.

Dear Customer:

The following information pertains to your account ending in | Redacted by Permanent Subcommittee on Investigations |

IMPORTANT AMENDMENTS TO YOUR CREDIT CARD AGREEMENT, NOTICE OF BENEFITS CHANGE AND ANNUAL PRIVACY NOTICE

At Bank of America, providing timely and relevant information about the terms of your Credit Card Agreement is one of our most important responsibilities. The enclosed documents **contain important changes to the terms of your Credit Card Agreement with Bank of America, information describing changes to the benefits associated with your account and your 2007 Annual Privacy Policy for Consumers.** If you have more than one account with us, you may receive more than one copy of the privacy policy. This may include closed accounts with balances or inactive accounts. Please remember that if you previously opted out of sharing information with third parties or among Bank of America companies in accordance with the privacy policy you do not need to opt out again. Please read this notice carefully and keep it with your Credit Card Agreement.

IMPORTANT AMENDMENTS TO YOUR CREDIT CARD AGREEMENT

Please read this document carefully and keep it with your **Credit Card Agreement.** Except as amended below, the terms of your **Credit Card Agreement** remain in effect. If there is a conflict, the terms in this Amendment(s) will prevail.

Annual Percentage Rates

Summary: We are increasing your Annual Percentage Rates (APRs) and changing your APRs to variable rates. Your APRs will vary each month with changes in the prime rate. The prime rate will be selected at the end of each month. The variable APR calculated using the new prime rate will apply to all balances in the same billing cycle as this selection date. The balances include transactions made before the new prime rate is selected. **You may reject these changes as described below.** These changes will not affect any promotional rates that may currently be applied to your account.

Amendment: Effective on the **first day following your statement Closing Date in March 2007:**

Your account will have variable APRs which are higher than your current APRs. All variable rates are calculated using the variable rate formula below.

- The variable **ANNUAL PERCENTAGE RATE** for Category A is currently **22.90%** (corresponding Daily Periodic Rate of 0.062739%). The margin is 14.65 percentage points. This is the category for Balance Transfers and Check Cash Advances.
- The variable **ANNUAL PERCENTAGE RATE** for Category B is currently **22.90%** (corresponding Daily Periodic Rate of 0.062739%). The margin is 14.65 percentage points. This is the category for Bank and ATM Cash Advances.
- The variable **ANNUAL PERCENTAGE RATE** for Category C is currently **22.90%** (corresponding Daily Periodic Rate of 0.062739%). The margin is 14.65 percentage points. This is the category for Purchases.
- The variable **ANNUAL PERCENTAGE RATE** for Category D is currently **22.90%** (corresponding Daily Periodic Rate of 0.062739%). The margin is 14.65 percentage points. This is the category for Other Balances.

Variable Rate Information

The variable APR formula is calculated by adding together an index and a margin. The index is the highest U.S. Prime Rate as published in the "Money Rates" section of The Wall Street Journal on the last

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publication day of each month. As of December 31, 2006, the index was 8.25 percentage points. The margin for each balance category is described above.

An increase or decrease in the index will cause a corresponding increase or decrease in your APRs on the first day of your billing cycle that begins in the same month in which the index is published. An increase in the index means that you will pay higher periodic rate finance charges and have a higher Total Minimum Payment Due. If The Wall Street Journal does not publish the U.S. Prime Rate, or if it changes the definition of the U.S. Prime Rate, we may, at our sole discretion, substitute another index.

As part of the Annual Percentage Rate Amendment decision, we obtained consumer report information, such as your accounts with other creditors, from Equifax Credit Information Services. Equifax did not make the decision and is unable to provide the specific reasons why the interest rate was increased. You have the right to obtain a free copy of your consumer report from Equifax within 60 days by calling 1-800-685-1111 and choosing option 1 from the voice response unit, or by writing to Equifax Credit Information Services, P.O. Box 740241, Atlanta, GA 30374-0241. You also have the right to dispute the accuracy or the completeness of any information in your consumer report.

To learn about your specific credit reasons for the Annual Percentage Rate Amendment, you may contact Bank of America at P.O. Box 15718, Wilmington, DE 19850 or call us at 1-800-421-2110 within 60 days of our providing this notice to you. Bank of America will provide a written response within 30 days after receiving your request.

Rejection Instructions for APR Increase:
If you do not wish to accept the above changes, you must meet all of the following requirements:

1. Write to us at Bank of America, P.O. Box 15718, Wilmington, DE 19850. Clearly print or type your name and full credit card account number and state that you reject this change. You must give notice in writing; it is not sufficient to telephone us. Send this notice only to the address in this paragraph; do not send it with a payment or any other type of customer service request. This mailbox is ONLY for rejection of change in terms.
2. Write to us immediately. We must receive your letter at the above address by **March 1, 2007** or your rejection will not be effective.
3. If you reject this change, it will not apply to your account. However, you must not use your account after March 1, 2007. If your account is used at any time after March 1, 2007, the above change will apply to your account, even if you sent us timely notice rejecting the change. Remember, use of your account includes credit card access checks and any charges that are billed to your account on a regular basis such as online services and subscriptions.

Monthly Minimum Payment

Summary: As a result of federal guidance, we are changing the minimum payment calculation on your account. The Current Payment portion of your minimum payment will no longer have a cap. This change may increase your monthly payment requirement. This change will be effective with the minimum payment that is calculated based on your balance for the billing cycle that closes in **July 2007**. If you use a bill payment service, you should contact them about the new minimum payment.

Amendment: This change will be effective with the minimum payment that is calculated based on your balance for the billing cycle that closes in **July 2007:**

We are replacing the *Total Minimum Payment Due* section of your Agreement with the following:

TOTAL MINIMUM PAYMENT DUE

You may pay your total outstanding balance at any time. Each billing cycle, you must pay at least the Total Minimum Payment Due shown on your monthly statement by its Payment Due Date. The Total Minimum Payment Due is the sum of all past due amounts plus the Current Payment. The Current Payment for each billing cycle includes three amounts: (1) 1% of your balance (your New Balance

Total except for any new Periodic Rate Finance Charges, and Late Fee), and (2) new Periodic Rate Finance Charges, and (3) new Late Fee. Generally, the lowest it will be is $15. We round the payment amount down to the nearest dollar. If a payment is credited to your account but is returned unpaid in a later billing cycle, we will recalculate the Total Minimum Payment Due for the billing cycle in which the payment was originally credited.

Overdraft Protection

Summary: Your Agreement now permits overdraft protection transfers to a properly linked Bank of America checking account. Overdraft protection transfers are Bank Cash Advances. There is a fee for each overdraft protection transfer.

Amendment: Effective on May 1, 2007:

We are adding the following section to your Agreement:

Overdraft Protection

If your checking account with Bank of America is linked to this account, this overdraft protection feature will allow funds to be transferred ("overdraft protection transfers") from this account into your designated checking account with Bank of America ("checking account") when transactions occur on your checking account, such as checks or other debits, that if paid would cause the checking account to be overdrawn ("overdraft transactions"). Overdraft protection transfers include automatic transfers to cover checking account fees. Overdraft protection transfers are processed after close of business Monday through Friday and are treated as Category B Bank Cash Advances. Each day's overdraft transactions will be totaled and rounded to the next $100 ($25 if you opened your checking account in Washington or Idaho) increment up to your available credit limit, regardless of who initiated the overdraft transactions. For example, if your checking account has a balance of $1.00 and a check or other debit item for $125 is presented for payment, which if paid would cause your checking account to be overdrawn, an overdraft protection transfer of $200 will be made to your checking account and a Bank Cash Advance of $200 will post to this account. The amount of available credit on this account must be sufficient to cover the total amount of overdraft transactions (received by Bank of America that day) rounded to the next $100 increment (but excluding any overdraft protection fee); otherwise one or more of the overdraft transactions for that day will be rejected. However, if the available credit on this account is greater than the overdraft transaction amount, but the available credit is insufficient for the overdraft transaction amount to be rounded to the next $100 increment, then the amount of the overdraft transaction will be rounded to the highest whole dollar amount of your available credit. (And in such an event, the accrued finance charges may result in an Overlimit Fee.) We may permit or refuse to permit any overdraft protection transfer that would cause you to exceed the credit limit on this account; but if we permit it, you may be assessed an Overlimit Fee during the billing cycle in which the transfer occurs. This overdraft protection feature will automatically be cancelled if this account is closed by either you or us, or at any time upon your request. Your overdraft transactions remain subject to the terms of your checking account with Bank of America, any related enrollment agreement, and this Agreement.

We are adding the following to your Agreement section titled *Transaction Fee Finance Charge:*

Transaction Fee for Overdraft Protection: If you have enrolled this account to provide overdraft protection, we will assess a transaction fee (**FINANCE CHARGE**) equal to 3% of the U.S. dollar amount of each such overdraft transaction that posts to this account (Fee: Min. $10.00). The transaction fee for these overdraft protection transfers will be assessed in lieu of the Bank Cash Advance fee.

The definition of Bank Cash Advance is:

"Bank Cash Advance" means use of your account to obtain a loan at any financial institution (*e.g.*, to obtain cash, money orders, or travelers checks), including overdraft transactions if this account is eligible for and properly enrolled in an overdraft protection program, at any non-financial institution (to obtain cash), or for any payment you make to us that is returned to us unpaid for any reason, including the related finance charges.

IMPORTANT - CHANGES TO THE BENEFIT COVERAGE ON YOUR ACCOUNT - PLEASE READ

Effective June 1, 2007, some benefits associated with your account will change. To download a new benefit guide, which details the changes summarized below, please visit www.fiacardservices.com/visaaaa or to request a paper copy of the benefit guide, please call 1-866-783-8663.

Change To The Benefit Provider And Claims Process

The benefit administrator for all of the benefits associated with your credit card except Visa Auto Rental Collision Damage Waiver is changing to the Cardwell Agency. The change will result in modifications to the claims process and provider contact information.

Change To Common Carrier Travel Accident Insurance Coverage And Benefit Provider

There are changes to your Common Carrier Travel Accident Insurance Coverage. No change in the coverage levels will occur, except changes to the types of covered losses including elimination of Permanent Total Disability coverage and elimination of Exposure and Disappearance coverage. In addition, the benefit administrator is changing to the Cardwell Agency. The change will result in modifications to the claims process and provider contact information for this benefit. The current travel accident coverage will still apply to covered trips commencing before June 1, 2007 and will be processed through the current benefit provider as outlined in your current benefits guide.

EQUAL CREDIT OPPORTUNITY NOTICE

The federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this bank is the Office of the Comptroller of the Currency, Customer Assistance Group, 1301 McKinney Street, Suite 3450, Houston, TX 77010-9050.

FIA Card Services, N.A., P.O. Box 15718, Wilmington, DE 19850. Please note that if you choose to correspond with us in writing, please provide your full account number and print your name.

SUMMARY OF S. 1395, STOP UNFAIR PRACTICES IN CREDIT CARDS ACT

The Stop Unfair Practices in Credit Cards Act, which is sponsored by Senators Levin, McCaskill, Leahy, Durbin, Bingaman, Cantwell, Whitehouse, Kohl, Brown, Kennedy, and Sanders and endorsed by consumer, labor, and small business groups, would do the following:

(1) **No Interest on Debt Paid on Time.** Prohibit interest charges on any portion of a credit card debt which the card holder paid on time during a grace period.

(2) **No Trailing Interest.** Prohibit added interest charges on credit card debt which the card holder paid on time and in full.

(3) **Limits on Penalty Interest.** Prohibit interest rate hikes on a credit card account unless the card holder agrees to them at the time, and, in any event, limit penalty interest rate hikes to no more than a 7 percentage point increase.

(4) **Apply Interest Rate Increases Only to Future Debt.** Require increased interest rates to apply only to future credit card debt, and not to debt incurred prior to the increase.

(5) **No Interest on Fees.** Prohibit the charging of interest on credit card transaction fees, such as late fees and over-the-limit fees.

(6) **Restrictions on Over-Limit Fees.** Prohibit the charging of repeated over-limit fees for a single instance of exceeding a credit card limit, and allow such fees to be charged only when a card holder's action, rather than a penalty, causes the limit to be exceeded.

(7) **Fixed Credit Limits.** Require that card issuers must offer consumers the option of operating under a fixed credit limit that cannot be exceeded.

(8) **No Pay-to-Pay Fees.** Prohibit charging a fee to allow a credit card holder to make a payment on a credit card debt, whether payment is by mail, telephone, electronic transfer, or otherwise.

(9) **Reasonable Currency Exchange Fees.** Require currency exchange fees to reasonably reflect the credit card issuer's actual costs.

(10) **Prompt and Fair Crediting of Card Holder Payments.** Require payments to be applied first to the credit card balance with the highest rate of interest, and to minimize finance charges. Prohibit late fees if the card issuer's actions caused the delay in crediting the payments.

(11) **Prime Rate Reference.** Require interest rates linked to a "prime rate" to use the prime rate published by the Federal Reserve Board.

(12) **Annual Audit.** Require the credit card issuer's primary regulator to perform annual audits to ensure compliance with credit card requirements and prohibitions.

(13) **Improved Data Collection.** Improve existing data collection efforts related to credit card interest rates, fees, and profits.

(14) **Transition Period.** Allow credit card issuers six months to implement the bill's provisions.

Testimony of Senator Carl Levin

EXHIBIT #7