FOR IMMEDIATE RELEASE: CONTACT: Meghan O'Shaughnessy
April 17, 2008 (202) 225-7944 (o)
(202) 225-3703 (c)

Prepared Remarks of Chairwoman Maloney for Subcommittee Hearing on The Credit Cardholders' Bill of Rights

WASHINGTON – Congresswoman Carolyn B. Maloney (D-NY), Chair of the Financial Institutions and Consumer Credit Subcommittee, delivered the following prepared remarks at today's subcommittee hearing, *The Credit Cardholders' Bill of Rights: Providing New Protections for Consumers*:

"The hearing will come to order.

"Before we begin this legislative hearing on H.R. 5244, 'The Credit Cardholders' Bill of Rights,' I would like to thank my colleagues on the Republican side, Ranking Member Bachus and Congresswoman Biggert and their staffs for working with us to make this hearing possible.

"There have been a number of issues that we have had to work through, but I am pleased that we have been able to do this in a constructive and bipartisan manner.

"I would also like to thank the staff of the full committee for all of their hard work in putting this together.

"I am delighted to welcome the witnesses to the second of two legislative hearings on H.R. 5244, 'The Credit Cardholders' Bill of Rights.' I introduced this bill with Chairman Frank about two months ago. It now has over 100 cosponsors to date, and has received editorial support from a number of national and regional newspapers across the country.

"The core principle of my bill is that cardholders should not be trapped by interest rate increases they did not agree to and that are applied retroactively to their existing debt, causing it to balloon.

"As you will hear from our witnesses on the second panel, even cardholders who are financially responsible and do their very best to meet their obligations fall victim to rate hikes that are unexplained, totally out of all proportion, and which drive them deeper into debt.

"For example, Steven Autrey had a 'fixed rate' of 9.9 percent and paid his bill on time every month for eight years. He never went over his limit except once, when interest charges on his account put him over his limit. Nonetheless, his issuer raised his credit card interest rate from 9.9 percent to 16.9 percent, and

when he complained, they told him they reserve the right to raise even 'fixed' interest rates for good customers.

"Under our bill, card companies would have to spell out in advance all of the specific reasons they could raise a customer's rate, and not just say they could do so 'any time' and 'for any reason.' And, under our bill, card companies could not call a rate 'fixed' unless it wasn't going to change. Cardholders faced with any interest rate increase would have the right to cancel the card and pay off their balance at the old rate.

“Banks argue that interest rates are based on the risk presented by the customer, but as Senator Levin’s hearing this winter showed, a single customer can end up with different rates from the same issuer, which on its face is inconsistent with the idea that the rate is based on the risk.

“Our second cardholder witness, Susan Wones, has three credit cards from the same issuer - each with a different interest rate. On one of her cards, she has paid on time each month and never gone over her limit, yet her rate went up from 14 percent to 25 percent.

“The reason she was given was that she was getting too close to her credit limit, and this made her a riskier customer. However, she has another credit card with the same issuer at 7.9 percent and they never changed the interest rate on that one. Moreover, she was able to get a third card from the same issuer with an introductory offer of 0 percent.

“Ms. Wones’ card company raised her rate even though she did not pay late or go over her limit. Our bill would ensure that a good customer like Ms Wones never has an interest rate increase on her existing balance.

“Stephen Strachan runs a small business in York, Pennsylvania. He has a credit score in the high 700’s -- close to perfect -- which is critical to managing his company. But over the years, the interest rates on several of his cards have been raised for no other reason than the fact that he had used the credit limit he had been given. Again, our bill would ensure that a good customer like Mr. Strachan could never get an interest rate increase on their existing balance, and could opt out of any future rate increases.

“We need to be very clear about the real world consequences of interest rate increases: they cause minimum payments to shoot up and make it very hard for people to ever get out of debt.

“For example, chart one, shows that if you borrow $1,000 at 15 percent, you could pay that off under nine years with minimum payments, and end up paying about $600 in interest. If your rate goes up to 30 percent, it will take you over 24 years to pay off the loan making minimum payments, even though those payments would be much larger and you would pay almost $4,000 in interest for that same loan of only $1,000.

“We all have constituents who have written us with stories like these.

“This bill attempts to put some of the responsibility for fair dealing back on the card companies and give cardholders the tools they need to control their finances and ensure they can pay back their debts responsibly. It requires card companies to give cardholders advance notice of any interest rate hike and the right to say ‘no’ to borrowing money at a higher interest rate than they originally agreed to.

“The bill also stops tricks and traps that make cardholders incur rate hikes and pricey fees, and it empowers cardholders to set limits on their credit. It also shields cardholders from misleading terms like so-called ‘fixed rates’ that aren’t really fixed. And, it protects the most vulnerable consumers from fee-heavy subprime cards. Finally, it gives Congress the tools to provide better oversight of the credit card industry.

“Contrary to what opponents claim, the bill sets NO price controls, NO rate caps, and NO fee caps. It does NOT dictate any business model to credit card companies.

“I believe it is a much needed correction to a market that has gotten wildly out of balance.

“A credit card agreement is a contract between a card company and a cardholder – but what good is a contract when only one party has any power to make decisions?

“Cardholders deserve information and the right to make decisions about their own credit – that’s what my bill does. It simply gives cardholders notice and choice; if they don’t like the deal their card companies are giving them, they can go somewhere else without getting hit with a big rate increase on their existing debt. That’s the free market at work.

“These principles are not radical. In fact, several leading card companies, including Citi, Chase and Cap One, for example, have voluntarily said that they will no longer practice universal default or double cycle billing and I applaud such moves. The bill just raises everyone to the best standard.

“The principle that a deal is a deal is as American as apple pie. This bill makes that principle apply to credit cards just as it does elsewhere.

“I look forward to the testimony.”

###