Rep. Carolyn Maloney's
Credit Cardholders' Bill of Rights (H.R. 5244)

The Credit Cardholders' Bill of Rights takes a moderate and balanced approach to reforming major credit card industry abuses and improving consumer protections without resorting to price controls, rate caps, or fee setting.

CARDHOLDERS DESERVE PROTECTIONS AGAINST ARBITRARY INTEREST RATE INCREASES

Cardholders who "default" (make a late payment, go over their credit limit, or bounce a check) are usually charged a penalty (typically $35) and subjected to an interest rate increase. Often, cardholders who default see their interest rates rise to 29.99% or higher. This rate increase applies not only to future charges, but also to existing balances.

Currently, cardholders who default aren't notified that their interest rate will increase until they get their next statement in the mail and find the new, higher rate already applied to their existing balance.

The Credit Card Holder's Bill of Rights requires card companies to give cardholders 45 days notice of any interest rate increase, and give cardholders the opportunity to opt-out of a card with a new, higher interest rate. The cardholder would be required to close their account and pay the existing balance at the rate and terms of the original credit card agreement. Cardholders would have two full billing cycles to opt out of their rate increase.

> *I have a credit card with a $1,000 balance and a 9.9% APR interest rate. One month, I accidentally paid my bill a week late. My card company charged me a $35 late fee and raised my interest rate from 9.9% to 29.9%, but I had no clue about the new rate until I got my next statement in the mail. I was shocked to see that the new rate had been applied to my entire existing $1,000 balance. I'm going to try and find a new card with a lower interest rate and transfer my balance, but that takes time – time that my $1,000 debt will be growing at a 29.99 rate of interest.*
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> ***Under the Credit Card Holders Bill of Rights,*** *I would still be charged the $35 late fee, but notified that in 45 days my interest rate would be raised from 9.9% to 29.9%. I would have more time to try to apply for a new card with a lower interest rate. Whether or not I find a new lower-interest card, I would be able to decline the higher interest rate on my old card, close my account, and pay off my $1,000 balance at my old 9.9% interest rate.*

Card companies can and do raise interest rates on customers who pay on time and don't go over their credit limit. This practice of raising interest rates on cardholders who haven't defaulted has been labeled many different terms, including "universal default," "off-us repricing," "adverse action repricing," and "broad-based repricing."

These confusing terms basically mean that card companies can raise a cardholder's interest rate if the cardholder misses a mortgage payment, pays a utility bill late, or has a late payment on another credit card – reasons unrelated to a cardholder's behavior with their card. Card companies can also raise interest rates for economic reasons ("broad-based repricing") if the cost of lending goes up or their business suffers losses. Card companies argue that they need to raise rates when a cardholder becomes more risky, even if that risky behavior is unrelated to the payment of their credit card.

Most cardholders who are good customers and pay their bills on time are shocked and confused when their interest rate goes up. They are hit with a double whammy when they learn the new higher rate applies not only to their future purchases and balances, but also to their existing balance.

The Credit Card Holders Bill of Rights would allow card companies to continue using this risk-based method of rate-setting and increase interest rates for "off-us" reasons, but it would prohibit card companies from charging the new, higher rate on existing balances. Card companies would also be required to inform cardholders about the rate increase and give them the right to opt-out of it by closing their account and paying off the balance at the existing terms.

I was shocked to find that the interest rate on my credit card had jumped from 12.99% to 29.99% when I got my statement in the mail this month. I've never made a late payment, have been steadily paying down my $1,000 balance, and never gone over my credit limit. I'm a good customer!

I called my card company and learned that they had re-classified me as "high-risk." The customer service representative asked me if I had fallen behind on any of my other bills. I told her that I did pay my mortgage and electricity bills late a few months back when my son got sick because I needed the money to pay his hospital bill, but I had never been late with my card payment. It didn't matter, the customer service rep informed me, this was the new interest rate I was paying – and it was the new interest rate I would be forced to pay on my entire existing balance.

***Under the Credit Cardholder's Bill of Rights**, I could still be assessed the higher interest rate for missing payments on my other bills, but that new higher rate would ONLY apply to my purchases and balances going forward and NOT to my existing $1,000 balance. I would also have the ability to opt-out of the rate increase, close my account, and pay off my existing balance at the old 12.99% rate.*

CARDHOLDERS WHO PAY ON TIME SHOULD NOT BE PENALIZED

So-called "double-cycle billing," is a confusing practice that certain card companies employ to charge cardholders more interest. It affects cardholders of these certain card companies who go from paying off their balance in full to carrying a balance.

Here's how it works: most card companies charge interest on the remaining unpaid balance from a cardholders' previous billing cycle. Card companies that use double-cycle billing, however, charge cardholders' interest on the entire balance from the previous cycle, even if the cardholder paid part of it off. Cardholders that use double-cycle billing are effectively charging interest on balances that have already been paid.

The Credit Cardholders' Bill of Rights bans double-cycle billing.

I usually pay off my credit card in full every month, but one month I charged $100 and only paid $50 by the due date. If I had a credit card that calculated payments on a single cycle, I would have been given credit for paying that $50 and only charged interest in my next billing cycle on the remaining $50 that I owed. But my card company uses double-cycle billing, so I was charged interest on the $100 from the previous billing cycle PLUS the remaining $50 that I still owe.

***Under the Credit Cardholders' Bill of Rights,** my card company would be prohibited from billing me on a double cycle and charging me interest on debt that I had already paid off.*

Some card companies also slap fees on the remaining interest-only balance of a cardholder who pays his/her bill on time, but incurs interest charges from their statement date to the payment date. Often cardholders don't realize this remaining interest exists and are surprised when they get a hefty late fee or rate increase for not paying it off.

The Credit Cardholders' Bill of Rights would prohibit card companies from charging late fees or raising rates in this situation.

I thought I had paid off my credit card in full because I paid the full amount listed on my billing statement. Turns out, my card company tacked on an extra 39 cents of interest from the day I paid my balance to the day my account *was actually credited with my payment. I had no clue I owed the extra money and ignored my next piece of mail from my card company – I assumed it was just more of those checks they always seem send me. My card company ended up charging me a $39 late fee and raising my interest rate because I didn't pay that 39 cents.*

Under the Credit Cardholders' Bill of Rights*, my card company wouldn't have been able to hit me with that late fee or raise my interest rate.*

CARDHOLDERS SHOULD BE PROTECTED FROM DUE DATE GIMMICKS

Currently, card companies are allowed to mail billing statements out 14 days before the statement is due. Mail delays and a host of other problems mean that cardholders on that schedule find themselves with less than a week to get their payment back to their card company – increasing the likelihood they will have a late payment.

The Credit Cardholders' Bill of Rights gives cardholders more time to pay their bills. It requires card companies to mail billing statements 25 calendar days before the statement's due date. It also requires that payments made before 5 p.m. EST on the due date are considered timely, and prohibits card companies from charging late fees when a cardholder presents proof of mailing his/her bill within 7 days of the due date.

Every month I get my credit card statement and have barely a week to get my check in the mail. I travel for work, and am often scrambling to pay my credit card bill the moment I return from a trip. I live in constant fear that I'll be late with my payment and as a result, my interest rate will go up and my credit score will go down. I wish I had more time.

Under the Credit Cardholders' Bill of Rights*, card companies would be required to mail their statements out 25 calendar days before the due date, giving cardholders more time to get their payments in on time. Card companies will also be prevented from tricking cardholders with an early cutoff on the due date; cardholders who choose to pay their bills online or by phone will also be on time with a payment made by 5 p.m. EST on the due date.*

CARDHOLDERS SHOULD BE PROTECTED FROM MISLEADING TERMS

Card companies can currently define the terms "fixed rate" and "prime rate" pretty much any way they want to. This can lead to obvious confusion among cardholders.

The Credit Cardholders' Bill of Rights prevents card companies from using these terms in a misleading or deceptive manner by establishing single, set definitions that every company must use:

The term "fixed rate," when appearing in conjunction with a reference to the annual percentage rate (APR) or interest rate applicable with respect to such an account, may only be used to refer to an APR or interest rate that will NOT change or vary for ANY reason over the period clearly and conspicuously specified in the terms of the account.

The term "prime rate," when appearing in any agreement of contract for any such account, may only be used to refer to the bank prime rate published in the Federal Reserve Statistical Release on selected interest rates (a government-issued industry standard).

The Credit Cardholders' Bill of Rights also gives cardholders who get pre-approved for a card the right to reject that card up until the moment they use or activate it without having their credit adversely impacted.

I applied for a credit card because it was advertised as having a low annual "fixed rate" of 9.9%. Nowhere in the advertisement did it say that fixed rate was only good for a 3 month introductory period. After I got my new card *in the mail and read the terms, I learned that my so-called 9.9% "fixed rate" was anything but that – in fact I was facing a much steeper 24.99% "fixed rate" after the 3 month introductory period was up. If I had known this, I never would have applied for the card in the first place. Now I've taken out a line of credit I will never use. I hope my credit score isn't affected.*

***Under the Credit Cardholders' Bill of Rights**, my card company would have had to clearly state that my so-called "fixed rate" was only good for 3 months. I would also have had the right to reject my new card after learning that the terms of my account were not what I expected without fearing that my credit would be negatively affected.*

CARDHOLDERS DESERVE THE RIGHT TO SET LIMITS ON THEIR CREDIT, AND CARD COMPANIES SHOULD NOT IMPOSE EXCESSIVE FEES ON CARDHOLDERS

Most card companies currently don't give cardholders the option of setting real limits on their own accounts. Instead, card companies take it upon themselves to decide what a cardholder's limit should be, and allow the cardholder to exceed that limit, but hit them with fees and/or a rate increase for doing so.

Most card companies penalize cardholders who spend beyond their credit ceiling by hitting them with an unlimited amount of "over-the-limit" fees. The average "over-the-limit" fee is $39, so it's easy to see how cardholders can get mired in a hole of debt they can't dig themselves out of.

The Credit Cardholders' Bill of Rights would require card companies to offer consumers the option of having a fixed credit limit that cannot be exceeded, and prevent card companies from charging over-the-limit fees on a cardholder with a fixed credit limit. The bill also limits the amount of consecutive "over-the-limit" fees card companies can charge to a more reasonable number of 3.

I have a credit limit of $2,000 on my card. Things got a little tight around the holidays and I used my card more then normal, accidentally going over my credit limit by $50. As a result, I was charged a $39 late fee. When my adjustable rate mortgage suddenly climbed on me in January, I had trouble paying down my credit card balance – all of my money had to go to my mortgage. I sent my card company a check for $60, but that still left me over my credit limit, so I was charged ANOTHER $39 over-the-limit fee. I'm trying to refinance my mortgage, but I don't know how long that will take. In the meantime, I just don't see how I'll be able to put more than $60 a month to my credit card. I don't want to lose my home, but if I keep getting hit with over-the-limit fees on my credit card, there's no way I'll be able to get out from under this credit card debt.

***Under the Credit Cardholder's Bill of Rights**, I would be able to set my credit limit at $1500 – an amount I know I'm better able to repay. I wouldn't be able to make any purchases that put me over that fixed limit. If I don't want to set a fixed limit and do accidentally go over my limit, my card company would only be allowed to impose a more reasonable 3 consecutive over-the-limit fees upon me.*

CARD COMPANIES SHOULD FAIRLY CREDIT AND ALLOCATE PAYMENTS

Card companies make money from charging interest – that's no secret. It's in the card companies' best interests to get a cardholder to pay off a lower interest balance first, while letting the cardholder's higher interest balance collect more interest and more debt. This isn't very fair to the cardholder, however. In fact, many cardholders have no idea that their card company is deciding how "best" to allocate their payments.

The Credit Cardholders' Bill of Rights directs card companies to fairly allocate payments on balances at different interest rates – making payments more equitable for both cardholders and card companies.

My new credit card gave me an introductory 0% interest rate on all balance transfers, so I transferred a $1,000 balance I had on another card. I then went out and bought $2,000 worth of new furniture for my apartment. I *made a $250 payment to my new card that month. When I got my statement in the mail the next month, I was shocked and confused. I knew that my interest rate for new purchases was 24.99%, but I didn't realize that I had to pay off my 0% interest $1,000 balance first before I could even begin paying off my much higher interest $2,000 balance. My new furniture didn't look like such a bargain after all – at this rate, it was probably going to cost twice what I had originally paid for it.*

Under the Credit Cardholders' Bills of Rights, *my $250 payment would go towards paying off BOTH my lower interest balance and my higher interest balance on a proportional basis.*

VULNERABLE CONSUMERS SHOULD BE PROTECTED FROM SUBPRIME CREDIT CARDS

Subprime credit cards have hefty fixed fees that exceed 25 percent of the card's credit limit. People with poor credit, who may have trouble getting a regular credit card, are generally suckered into subprime credit card deals. They don't realize that the fees and interest that accompany these types of cards generally make them more hassle than their worth. The excessive fees that accompany subprime cards often push many cardholders over their credit limits, which saddles them with "over-the-limit" fees and even more debt.

The Credit Cardholders' Bill of Rights requires that all fees for subprime credit cards must be paid up front before the card is issued. That way, cardholders don't get suckered into a bad deal and debt they have no way of repaying.

I had maxed out all of my credit cards over spring break and needed a little extra credit to get me through to the end of the semester. I was turned down by a few card companies, but finally was able to get a new credit card. I was excited when I found out it had a $300 credit limit. I went out and bought a $65 sweater and $85 worth of school supplies. I was confused when I got my bill in the mail the next month – it said I had gone over my credit limit. Apparently, there was over $160 in fees that came out of my credit limit. No one told me that when I signed up for it. It doesn't seem fair.

Under the Credit Cardholders' Bill of Rights*, I would have been told about - and forced to pay - all of those fees up front, so I never would have agreed to it. I can barely pay off my existing balances as it is, I don't need to be saddled with hundreds of dollars in extra fees that would only drive me deeper into debt.*

CONGRESS SHOULD PROVIDE BETTER OVERSIGHT OF THE CREDIT CARD INDUSTRY

To strengthen oversight of the credit card industry, the Credit Cardholders' Bill of Rights requires the Federal Reserve Board to report annually to Congress on the credit card industry's profits, as well as the types and amounts of fees and rates the industry is charging.

3/4/08