

March 30, 2009

Senator Christopher J. Dodd
Chairman, Senate Banking, Housing and Urban Affairs Committee
Senator Richard C. Shelby
Ranking Member, Senate Banking, Housing and Urban Affairs Committee
534 Dirksen Senate Office Building
Washington, DC 20510

RE: The Credit Card Accountability, Responsibility and Disclosure Act of 2009
S. 414

Dear Chairman Dodd and Ranking Member Shelby,

The Center for Responsible Lending,¹ urges you to support the Credit CARD Act of 2009, S. 414. The bill would restore much-needed balance to the relationship between card issuers and card holders. This is particularly important during this time of economic crisis. America's economy can ill-afford to continue to leave millions of card-holders vulnerable to arbitrary, unjustified and very expensive practices that actually diminish their capacity to manage finances in these difficult time. This in turn, suppresses both consumer confidence and consumer demand – neither of which is helpful in a recession.

While the FRB, OTS and NCUA promulgated rules addressing a few of the practices addressed by S. 414, these rules, though welcome, are insufficient. First, they leave several key abuses covered by S. 414 untouched, and second, they do not go into effect until July 1, 2010. That is a long implementation time in the best of circumstances, but it is inexcusable at a time when recovery depends on helping American households regain or retain sound financial footing.

A few key points highlight the need for more complete, and earlier, reforms:

- *Penalty rates:* In the last decade, the rate spread between standard purchase rates and penalty pricing has doubled, from an 8% rate spread to a nearly 17% rate spread, with the resulting penalty rates approaching 29 – 30%. Despite the industry's efforts to justify this as "risk-pricing," analysis of its data indicates that the risk premium is closer to 5% than 17%. CRL estimates that the "penalty rate shock" on the average revolving debt balance to be an **extra \$1800 per year**.

¹ CRL is a non-partisan, non-profit research and advocacy group dedicated to combating abusive financial practices. It is affiliated with Self-Help, a community development credit union which encompasses retail credit unions in North Carolina and California which offer traditional banking services including credit cards.

That's \$1800 per year **additional** interest diverted from other necessary expenditures for these households.

- *Impact on the elderly:* A DEMOS survey found that 92% of middle-and lower-income families used credit cards to pay medical expenses in 2008, and that older Americans, over 65, experienced a 32% growth in credit card debt in 2008, carrying an average \$10, 292. Abuses in credit card pricing simply increase the burden of cost on seniors that are using credit cards to pay for essential needs.
- *Impact on the economy and the industry:* The DEMOS survey found that most middle-and lower-income families worked more hours or a second job, or borrowed to lower their credit card balances in 2008. As unemployment increases, and the credit spigot slows, the card issuers are likely to find that efforts to put more of their customers into higher rates for no justifiable reason and extract more fees is counterproductive. It is likely to increase their delinquencies and charge-offs.²

Among the key provisions in S. 414 that will, in the long run, be good not only for cardholders, but for the issuers and the economy are:

- Prohibits issuers from placing their customers in the “penalty box” for reasons unrelated to their performance on the account.
- Requires that consumers be given a way out of that penalty box.
- Requires credit card issuers to honor the fundamental concept of contracts, and prohibits “any time / any reason” changes in terms except at the expiration of the card’s term.
- Allows consumer choice as to whether to exceed the credit limit.
- Addresses issues of underwriting to students that will help students enter the work world without already being overburdened by expensive credit card debt.

I would be happy to answer questions from you or any of your staff. I can be reached at 919-417-1624 or Kathleen.Keest@responsiblelending.com. We look forward to working with you toward final passage of this important legislation. Thank you.

Sincerely,

Kathleen Keest
Senior Policy Counsel

² *Credit Cards at a Tipping Point*, Innovest (October, 2008), anticipating \$96 billion in charge-offs in 2009, and suggesting that the issuers with the best practices are the ones likely to be repaid, with best practices, including a business model based on repayment, flexible servicing, and transparency.