United States Senate
Committee on Banking, Housing, and Urban Affairs
Christopher J. Dodd (D-CT), Chairman

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Opening Statement of Chairman Christopher J. Dodd
"Modernizing Consumer Protection in the Financial Regulatory System: Strengthening Credit Card Protections"

Remarks as Prepared:

Today, the Committee meets to look into an issue of vital importance to American consumers, their families and to the stability of our financial system – and that is the need to reform the practices of our nation's credit card companies, and to provide tough new protections for consumers.

In my travels around Connecticut, I hear frequently from constituents about the burden of abusive credit card practices. In fact, the average amount of household credit card debt in Connecticut is over $7,100. Non-business bankruptcy filings in the state are increasing, and in the second quarter of last year, credit card delinquencies increased in seven of eight counties in the state. Across the country, cardholders are paying $12 billion in penalty fees annually. It is a major problem in my state, and throughout the country.

At a time when our economy is in a crisis and consumers are struggling financially, credit card companies are gouging them, hiking interest rates on customers who pay on time and consistently meet the terms of their credit card agreements. They impose penalty interest rates, some as high as 32%. And many contain clauses allowing them to change the terms of the agreement, including the interest rate, at any time, for any reason. These practices can mean mountains of debt for families, and financial ruin for too many.

When I introduced Secretary Geithner earlier this week as he unveiled the framework of the President's plan to stabilize our financial system, I noted that, for too long, our leading regulators had failed fully to realize that the financial health and security of consumers is inextricably linked to the success of the American economy.

I noted that unless we apply the same urgent focus to helping consumers that we apply to supporting our banks' efforts to re-start lending, we will not be able to break the negative cycle of rising foreclosures and declining credit that is damaging our economy.

In this hearing, the committee examines abusive credit card practices that harm consumers, and explores some very specific legislative ideas to end them. These kinds of consumer protections must be at the forefront of our efforts to modernize our financial regulatory system.

Why is this both important and urgent? Today, far too many American families are forced to rely on short-term, high-interest credit card debt to finance their most basic necessities. And as layoffs continue, home values plunge, and home equity lines of credit are cut or canceled, they are increasingly falling behind. This December, the number of credit card payments that were late by 60 days or more, were up 16.2 percent from last year.

Banks, increasingly worried about taking more bad debt onto their balance sheets, are monitoring their credit card portfolios very closely – slashing credit limits, and increasing fees and interest rates, even for consumers who have held up their end of the bargain.

That puts consumers, including many of my Connecticut constituents, in the worst possible position at the worst possible time.

For too long, the use of confusing, misleading and predatory practices has been standard operating procedure for many in the credit card industry. The list of troubling practices the credit card companies are engaged in is as lengthy as it is disturbing.

Predatory rates, fees and charges.

“Any time, any reason” interest rate increases and account changes.

Retroactive interest rate increases.

Deceptive marketing to young people.

Shortening the period consumers have to pay their bills with no warning.

Even the federal financial regulators, of whom I have been openly critical for a lack of appropriate oversight throughout the subprime mortgage market crisis, recognized the harm these sinister practices pose not only to credit card customers, but also to our economy.

Last May, the Federal Reserve, Office of Thrift Supervision, and National Credit Union Administration proposed rules aimed at curbing some of these practices.

These rules are a good step, although long overdue. But they fell far short of what’s actually needed to protect American families.

Just as we have seen in this housing crisis, when companies lure people into financial arrangements that are deceptive, abusive and predatory, it not only means mountains of debt for families, bankruptcy and financial ruin for too many – it can also prove catastrophic for our economy.

Today, as the Committee examines how best to modernize and reform our outdated and ineffective financial regulatory system, we have a clear message to send to the credit card companies:

Your days bilking American families at the expense of our economy are over.

Today, we will discuss proposals to reform abusive credit card practices that drag so many American families deeper and deeper into debt, including the Credit Card Accountability Responsibility and Disclosure Act, which I recently reintroduced.

We must protect the rights of financially responsible credit card users – so that if the credit card company delayed crediting your payment, you aren't charged for their mistake.

We must prevent issuers from changing the terms of a credit card contract before the term is up.

And perhaps most importantly, we must protect our young people – who are faced with an onslaught of credit card offers, often years before they turn 18, or as soon as they set foot onto a college campus.

These practices are wrong, and they're unfair.

And mark my words: in the coming months, they will end.

Of course, we must do all we can to encourage consumers to act responsibly when it comes to using credit cards. But we should *demand* such responsible behavior when it comes to the companies that issue these cards.

The need to reform credit card practices has never been more important. It is not only the right thing to do for families and consumers – it is the right thing to do for our economy. I have been working on reforms in this area for many years, and I am determined to move forward with these reforms.

-30-

SUMMARY
"THE CREDIT CARD ACCOUNTABILITY RESPONSIBILITY AND DISCLOSURE ACT"
The Credit CARD Act

Strengthens Credit Card Industry Regulation and Supervision

- Requires banking regulators to evaluate the policies and procedures of card issuers to ensure compliance with card requirements and prohibitions;
- Improves data collection related to rates, fees, and profits;
- Provides each federal financial regulator with the authority to prescribe regulations governing unfair or deceptive practices by banks and savings and loan institutions.

Prevents "any-time, any reason" Increases in Interest Rate and Terms

- Prevents credit card issuers from increasing interest rates on cardholders in good standing for reasons unrelated to the cardholder's behavior with respect to that card (universal default ban);
- Prevents issuers from changing the terms of a credit card contract for the length of the card agreement (ban on unilateral changes to card agreements);
- Allows customers who close their accounts to pay under the terms existing at the time the account is closed;
- Requires interest rate increases to apply only to future credit card debt.

Requires Fairness in Application of Card Payments

- Requires payments to be applied first to the credit card balance with the highest rate of interest, and to minimize finance charges;
- Prohibits issuers from setting early morning deadlines for credit card payments.

Protects the Rights of Financially Responsible Credit Card Users

- Prohibits interest charges on debt paid on time (double-cycle billing ban);
- Prohibits late fees if the card issuer delayed crediting the payment;
- Requires credit card statements to be mailed 21 days before the bill is due rather than the current 14;
- Requires that payment at local branches be credited same-day.

Prohibits Exorbitant and Unnecessary Rates and Fees

- Prohibits the charging of interest on credit card transaction fees, such as late fees and overlimit fee;
- Prohibits issuers from charging a fee to allow a credit card holder to pay a credit card debt, whether payment is by mail, telephone, electronic transfer, or otherwise;
- Prevents issuers from multiple over-limit fees for exceeding a card limit, and allows such fees only when a cardholder's action, rather than a fee or finance charge, causes the limit to be exceeded;
- Requires issuers to offer consumers the option of operating under a fixed credit limit;
- Requires issuers to lower penalty rates that have been imposed on a cardholder after 6 months if the cardholder commits no further violations.

(more)

Provides Enhanced Disclosures of Card Terms and Conditions

- Requires cardholders to be given 45 days notice of any interest rate increase;
- Requires issuers to provide disclosures to consumers upon card renewal when the card terms have changed;
- Requires issuers to provide individual consumer account information and to disclose the period of time and total interest it will take to pay off the card balance if only minimum monthly payments are made;
- Requires full disclosure in billing statements of payment due dates and applicable late payment penalties.

Ensures Adequate Safeguards for Young People

- Requires issuers soliciting to persons under the age of 21 to obtain an application that contains: the signature of a parent, guardian, or other individual who will take responsibility for the debt; proof that the applicant has an independent means of repaying any credit extended; or proof that the applicant has completed a certified financial literacy course;
- Limits prescreened offers of credit to young consumers by prohibiting consumer reporting agencies from furnishing reports in connection with firm offers of credit that are not initiated by consumers under age 21. Allows consumers who are at least 18, but not yet 21, to choose to receive such solicitations.

Studies:

Interchange Fees*:* Requires the GAO to study the impact of interchange fees on consumers and merchants, specifically their disclosure, pricing, fee and cost structure.

Credit Card Safety Rating Commission: Authorizes the GAO to establish a Commission to determine if a rating system may enable card customers to better asses: the level of safety of credit card agreements; the impact of credit card transparency of various rating system policy options.