Tri-State Coalition for Responsible Investment

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Increase in Irresponsible Practices

As the economy worsens, consumers are relying more heavily on credit cards as a last source of capital, while home values decline and credit becomes less available. Concurrently, many banks are employing their high-margin credit card departments to offset their losses from the current crisis. This, along with tactics of providing high credit lines to those with lower incomes, a lack of financial literacy materials, unclear policies of the offered card, and miniscule publicity on new and existing work-out programs for customers who are at risk of default, trap consumers into revolving debt cycles. These practices undermine long term financial outlook for both the companies involved as well as the country.

Members of ICCR are working with over a dozen banks on predatory credit practices. Through resolutions and dialogues, shareholders have asked for a report on predatory lending, marketing, and collection practices with regards to how these issues impact the borrower.

Shareholders are not the only group of concerned citizens. At the end of 2008, the Federal Reserve Board, the Office of Thrift and Supervision, and the National Credit Union Administration released new credit card rules. Some that were included in this regulation was to eliminate the following: bait and switch tactics (no rate increases with in the first year), double cycle billing, retroactive rate hikes as well as provide for a 45-day advance notice for increased rates of any sort.

Even though these new rules address some of the shareholders concerns, they are not effective until July 1, 2010.

However, Representative Carolyn Maloney's Credit Card Bill of Rights, which will take affect in February 2010, ensures protections that the Federal Reserve Board's rules do not.

See right column for highlights of the new changes.

Full Bill Text:

http://maloney.house.gov/documents/financial/creditcards/MAY22.FinalCreditCardBill.pdf

Additional Resources:

1. Rep Maloney's Summary:

http://maloney.house.gov/documents/financial/creditcards/MAY22.CreditCardSummaryFinalPassage.pdf

2. The Center for Responsible Lending:

http://www.responsiblelending.org/

3. Shareholder efforts:

http://www.mma-online.org/showitem.aspx?id=5745

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Legislative Initiatives

President Obama signed the Credit Card Accountability Responsibility Disclosure Act of 2009 on May 22.

It prevents:

- Retroactive rate hikes, if the customer is not more than 60 days late
- Universal Default
- Double Cycle Billing
- Companies from increasing interest rates in the first year after opening an account
- Prohibits companies from charging a fee to pay a bill by mail, phone, or electronic transfer, expect for live services to expedited payments
- "Over-the-limit" fees, unless the customer requests it

It requires:

- 45 days notice of any significant changes in terms
- Promotional interest rates to last at least 6 months
- Payments made above the minimum to be applied to the balance with the highest rate of interest
- A company to mail billing statements 21 calendar days before the due date
- Payments made before 5 p.m. EST on the due date are considered on time.
- Ability to reject pre-screened offers
- Requires the company to consider the ability of the consumer to pay when issuing a credit card
- Full disclosure in bills of due dates and applicable late fees
- Requires those under the age of 21 to have an adult co-sign whom will take the responsibility of the debt

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