



For Immediate Release

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Contact:

Chi Chi Wu, NCLC, 617-542-8010

Lauren Saunders, NCLC, 202-452-6252

CREDIT CARD PROTECTIONS TAKE EFFECT MONDAY BUT LOOPHOLES AND ABUSES PERSIST

Financial Watchdog Needed; Advice to Consumers

On Monday, February 22, the long-awaited - and long-needed – protections of the Credit Card Accountability, Responsibility and Disclosure (CARD) Act go into effect. The Credit CARD Act, passed in May of last year, puts an end to some of the worst abuses by credit card companies. Even after the Credit CARD Act takes effect, however, consumers will be vulnerable to other abuses as well as new schemes devised by companies to get around these protections. These abuses and evasions point to the need for Congress to pass legislation establishing a new Consumer Financial Protection Agency.

“The new Credit CARD Act protections eliminate some of the worst abuses from the last decade,” noted Chi Chi Wu, Staff Attorney at National Consumer Law Center “But we are in a new decade, and the companies have figured out a whole different set of tactics to keep gouging consumers. It shouldn’t take an Act of Congress each time credit card companies dream up a new scheme. We need a new regulator that is nimble and quick enough to counter the creativity of credit card lenders.”

Some of the abuses and evasions that remain include:

- *Over-the-limit fees:* The Credit CARD Act prohibits over-the-limit fees unless consumers agree to have over-limit transactions approved. But companies are continuing to approve over-limit purchases without the consumer’s opt in, are demanding that the over-limit amount be paid in full, and then are charging an over-limit fee but calling it a late fee. This tactic can also push the consumer into becoming 60 days late, at which point they are subject to a retroactive rate increase.

- *Retroactive rate increases:* The Credit CARD Act prohibits rate increases on existing balances unless the consumer is over 60 days late. Companies are evading that rule by purporting to charge 29% APR, but promising to refund 10% of the interest charges the next month if customer pays on time. In effect, this allows a retroactive rate hike if the consumer pays even one day late.
- *Deferred interest plans:* Cards may claim “No Interest for 6 Months!” but consumers who are short even a few dollars in paying off the entire purchase balance in six months can be hit with a huge retroactive interest charge, going back to the date of the purchase. These cards are a trap for unwary consumers, but the Federal Reserve Board carved out an exception for them from the protections of the Credit CARD Act.
- *Minimum payment protections lacking:* The Act protects consumers who get rate increases from big changes in the minimum payment and gives them the right to close the account and pay it off over time. Yet companies can evade these protections by changing the minimum payment first and then asking the consumer to agree to unfavorable terms
- *Right to earn back non-penalty rate:* The Act gives consumers who have been 60 days late and who are subject to a penalty rate the right to earn back the lower rate by making minimum payments on time for six months. But companies are reserving the right to first demand payment in full and then impose the penalty rate, defeating the protections.
- *Usurious interest rates:* Credit card companies can still charge whatever interest rates they want, so long as they don’t apply them retroactively to existing balances. So penalty rates of 35% or 40% are still permissible under federal law, even though they violate the usury laws of many states. Subprime credit card companies are making up for lost income from the fee limitations of the Credit CARD Act by charging rates of 79.9%.

“These underhanded tactics are precisely what Congress has worked so hard to clean up in the Credit CARD Act of 2009. Card issuer attempts to outwit consumers must be reined in by a financial watchdog whose job it is to crack down on evasion, abuse and unfairness,” pointed out Lauren Saunders, Managing Attorney of the National Consumer Law Center’s Washington DC office.

An explanation of the Credit CARD Act’s protections and a handout with advice to consumers is attached.

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