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NCLC ADVOCATES STATEMENT: CFPB REPORT SHOWS SMART REGULATIONS PROTECT CONSUMERS; CREDIT CARD REFORM SAVED CONSUMERS BILLIONS

(WASHINGTON) Consumer advocates from the National Consumer Law Center (NCLC) hailed a report released today by the Consumer Financial Protection Bureau (CFPB) finding that the Credit Card Accountability, Responsibility and Disclosures (CARD) Act of 2009 has benefitted consumers greatly. The CFPB report found that the Credit CARD Act reduced penalty fees and made the cost of credit clearer for consumers. Overall, the price of credit for credit cards dropped by two percentage points between 2008 and 2012. These reductions included \$4 billion that consumers saved in lower or avoided late and over-the-limit fees.

“The CFPB’s report shows that good regulation is good for consumers and puts money in their wallets,” stated National Consumer Law Center staff attorney Chi Chi Wu. “There’s been a sea change in the credit card market, and we can thank the Credit CARD Act for that.”

The Credit CARD Act eliminated or restricted many of the worst practices of credit card lenders, including:

- Any time, any reason interest rate hikes that were applied retroactively to balances that consumers already had incurred;
- Sky-high late, over-the-limit and other penalty fees;
- Subprime “fee-harvester” cards that came with low credit limits and so many fees that the cards would be nearly maxed out when consumers first received them;
- Hair trigger tactics to trip consumers into paying late, such as early morning payment cut-off times and too-short timeframes between when consumers got their bills and the due date.

“Before the Credit CARD Act, it was a race to the bottom to see which credit card lenders could develop the latest trick to extract more fees and interest from consumers,” said Lauren Saunders, managing attorney for National Consumer Law Center’s Washington D.C. office. “Good regulation stopped that race dead in its tracks.”

Advocates also urged the CFPB to go further in protecting consumers by eliminating the “tricks and traps” not addressed by the Credit CARD Act, including:

- **Deceptive deferred interest plans.** These plans are offered by retailers and online pay-later product that promote “No Interest,” and sometimes no payments, for a certain time period. The trap is that they sock consumers with huge retroactive interest charges—going back to the date of the purchase—if the consumers are short by even a few dollars

in paying off the entire purchase by the end of the so-called “interest-free” period.

- **Abusive “pre-account” opening fees.** These fees evade the Credit CARD Act’s restriction that fees be no more than 25% of the credit limit during the first year. Fee-harvester credit card lenders claim that the fees don’t count because they are charged before the account is opened.
- **Too low minimum payments.** Tiny minimum payments, and underwriting the consumer’s ability-to-pay based on these payments instead of the amount of the debt, makes it too easy to get deep into overwhelming credit card debt and too hard to get out.

The CFPB’s report also raised concerns about these practices, as well as several others. In particular, the CFPB found that for consumers with subprime credit scores—often consumers with the least means—almost half (43%) were socked with lump sum retroactive interest charges on deferred interest products. Advocates urged the CFPB to issue strong regulations that prohibit these abuses.

Finally, consumer advocates noted that the CFPB report was made possible in part by its use of several databases of information, including its Consumer Credit Panel. The CFPB has been under attack for its gathering and use of large amounts of data, with critics alleging that such data practices are invasive. “This report shows why it is absolutely essential for the CFPB to gather and analyze large amounts of wide-ranging data,” noted Wu. “And it shows why industry lobbyists might object to the practice—because the data can uncover critical information, such as how strong regulations are helping consumers.”

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