VICIOUS CYCLE

How Unfair Credit Card Practices Are Squeezing Consumers And Undermining The Recovery

A Report By The Joint Economic Committee
Congresswoman Carolyn B. Maloney, Chair
Senator Charles E. Schumer, Vice Chair

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EXECUTIVE SUMMARY

The credit card provisions that the Federal Reserve have identified as unfair, deceptive, and anticompetitive are not only sending American families further into debt, but standing in the way of economic recovery. The economic downturn and financial crisis have accelerated the adverse impacts of these practices on consumers, small businesses and our economy as a whole.

- As credit cardholders and small businesses struggle in the economic downturn, significant increases in credit card interest rates have the same impact as price increases, further depressing demand for goods and services (and economic recovery). The average interest rate on credit cards went up a full percentage point from the fourth quarter of 2008 to February 2009, even though the Federal Reserve's targeted federal funds rate – the cost of money for the banks – was lowered to between 0 and .25 percent on December 16, 2008.

- Like subprime mortgage lenders, credit card issuers have been seeking to maximize their profits by lending to those who are financially vulnerable and then spreading the risks by selling off securities based on credit card receivables. But as charge-off rates increase and the supply of credit falls because of the financial crisis, credit card companies have increasingly made up losses by raising interest rates to all borrowers, effectively charging creditworthy borrowers to make up for growing deficits.

- Creditworthy borrowers cannot simply switch to a new card when confronted with abusive practices because the unfair, deceptive, and anticompetitive practices identified in the legislation increase costs to card users of searching for and switching to a new card. These practices, which are nearly universal in the credit card industry, trap cardholders in a cycle of debt.

- A growing share of consumers' disposable income, which largely determines consumer spending, is being diverted to service credit card debt rather than to help economic recovery. As of March 2009, U.S. revolving consumer debt (almost entirely credit card debt) was about $950 Billion. In the fourth quarter of 2008, 13.9 percent of consumer disposable income went to service this debt.

- As household wealth has declined in the downturn, more American families are facing financial distress due to high debt burdens. In 2007, before the recession began, 14.7 percent of U.S. families had debt exceeding 40 percent of their income.

- Personal bankruptcy rates were up almost 30 percent in 2008. Penalty interest rates, which raise interest rates on balances by 15 percent or more, can trigger bankruptcy on financially constrained families.

Absent legislation eliminating unfair practices, specifically retroactive rate increases on existing balances, universal default, and "any time any reason" rate increases, issuers have a profit incentive to continue them. These practices inhibit consumer spending and allow issuers to avoid sound underwriting while forcing creditworthy borrowers to pay for the growing risk of default. The bills currently being considered in the House and Senate are necessary to help get our economy back on track and to restore market discipline and fairness to the credit card sector.

DEEP RECESSION LOWERS CONSUMER AND SMALL BUSINESS SPENDING

The real economy is undergoing a large contraction in economic activity with real Gross Domestic Product (GDP) falling 6.3 percent at annual rate in the 4th quarter of 2008 and 6.1 percent in the first quarter of 2009. The unemployment rate reached 8.9 percent in April 2009, four percentage points higher than the unemployment rate at the start of the recession. Average weekly hours of work have declined to a historically low 33.2 hours per week, falling 0.6 hours during this recession.

The current recession looks to be longer and deeper than any economic downturn since the Great Depression. These mounting job losses have weakened consumer confidence and retail sales have plummeted. While the recession started in December 2007, the decline in retail sales began in July 2008 and accelerated downward through the end of the year. Although retail sales were higher in January and February of 2009, retail sales were lower in March. Even the higher sales in January and February were associated with 8 to 9 percent year-over-year declines.

While there are "glimmers of hope" that the economy is recovering, households struggling to make ends meet have faced increases in the interest rate on their credit cards. While a large fraction of credit card users are "transactions only" users, paying off any balance at the end of each cycle and not incurring interest payments, in 2007 (before the recession), the median balance on a household's credit card was $3,000.[1] The average balance in 2007 was $7,300, a much higher number because a small fraction of the population holds large balances on their credit card.

Increases in interest rates can be as much as 8 to 20 percentage points higher than the current interest rate paid by the consumer, if the increase in the interest rate goes up to the penalty interest rate.[2] While some of the increases in interest rates on credit cards is due to an increase in risk of default by the cardholder, these interest rate increases are also attempts by the credit card companies to recoup losses experienced from other cardholders or increased costs of funds. Currently, the *charge-off rate* for credit cards, according to the S&P Credit Card Quality Index, has almost doubled from the start of the recession, from 4.85 percent to 8.80 percent.[3] The charge-off rate is the percent of total credit card balances that the company has decided that it has no chance of collecting and has removed from its books.

The average interest charged by all credit cards was 13.08 percent in February 2009, a jump of a full percentage point from the fourth quarter of 2008.[4] The average credit card interest rate had been declining since the fourth quarter of 2007, when the effective federal funds rate was at or around 4.5 percent.[5] The federal funds rate is now targeted between 0 and .25 percent, yet interest rates are rising.

Opponents to any curbs on credit card companies' ability to change interest rates, including interest rates on existing balances, argue that these practices compensate for the greater risks posed by cardholders who make late payments or exhibit other risky behavior and that any limitations on the credit card companies abilities to change rates – currently "at any time, for any reason" – would reduce the amount of credit in an already credit-constrained financial system or may induce riskier behavior or moral hazard by cardholders.[6] On the other hand, consumer groups say that these fees and practices are harmful to the financial condition of many cardholders and that card issuers use them to generate profits.[7] These changes in interest rates, as well as other practices such as double-cycle billing, also make it more difficult for credit cardholders to switch to lower interest credit cards.

Credit card provisions that allow increases in credit card interest rates have the same effect as increases in prices, further suppressing demand for goods and services for both consumers as well as small business owners that typically rely on credit cards for liquidity. In a recent hearing held by the Joint Economic Committee, Dr. Joseph Stiglitz testified that reining in these practices would increase demand for goods and services, stating that “one of the things that is restricting individuals [from] purchasing goods is the recognition that they have to pay excessive fees. [It is] like a price rise. They look at the cost of credit; it is going up now.”[8]

While the focus of this paper is consumer debt, these provisions also affect small business owners. Small business owners sometimes use personal credit cards and other consumer loans, as well as the business’s credit card, as a source of finance. A recent study found that between 16 to 28 percent of capital in 2006 for small business owners came from credit cards.[9]

“Consumer debt” consists of both revolving and non-revolving debt. This paper focuses on revolving consumer debt, which is almost entirely comprised of credit card debt. Non-revolving debt includes loans for automobiles, education, etc. In March 2009, total U.S. consumer debt was $2.55 trillion.[11]

A substantial fraction of household income goes toward serving this debt:

- Revolving consumer debt in March 2009 was $945.9 billion.[12]
- About half (46.1 percent) of U.S. households hold credit cards with balances, according to the 2007 Survey of Consumer Finances (SCF).[13]
- The median revolving credit card balance is $3000.[14]
- A large share of disposable income goes to service overall debt—13.9 percent in the fourth quarter of 2008.[15]

Unfair and deceptive lending practices by credit card companies compound households’ financial distress and increase the likelihood of bankruptcy.

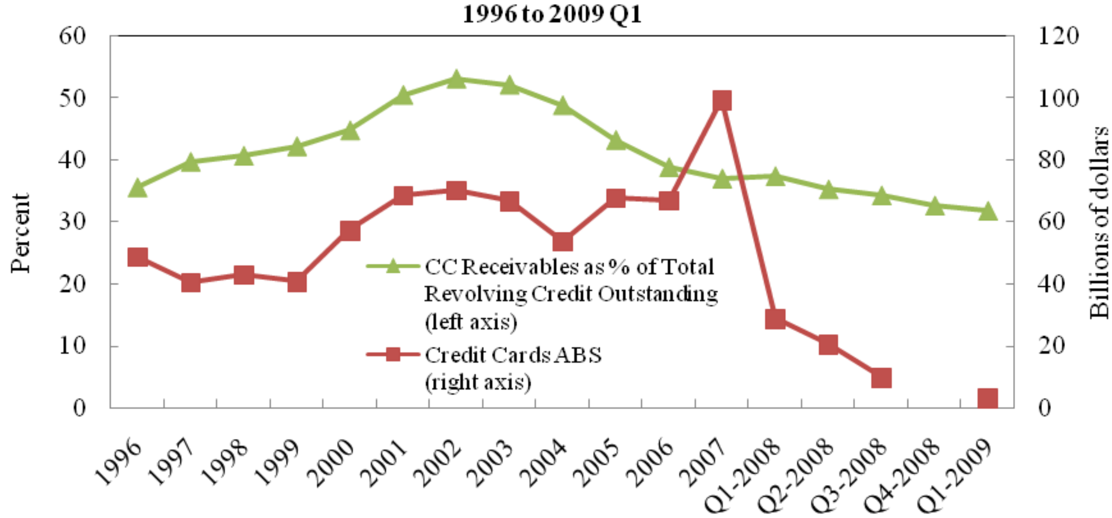
COLLAPSE OF FINANCIAL MARKET HAS DRIED UP SUPPLY OF CREDIT

As with subprime lenders, credit card issuers have been seeking to maximize their profits by lending to those who are economically vulnerable and then spreading their risk by securitizing the debt. In addition, credit card companies have spread risk to other credit cardholders by raising interest rates to all borrowers, effectively charging creditworthy borrowers to make up for growing defaults.

Securitization is a process whereby lenders and others create pools of loans and then sell securities that are backed by cash flows from these loan pools—thereby replenishing funds available for lending and reducing the lender's cost of capital. Although securitization increased the amount of credit available by reducing capital requirements, the increase in securitization raises the risk that credit card issuers are not adequately capitalized, especially in light of the increase in credit card defaults. The degree to which securitization transfers risk from the issuing bank to others depends on the amount of "implicit recourse" retained by the issuing banks.[16] Implicit recourse is the amount of responsibility that the issuing banks retain for the performance of the credit card receivables even after securitizing the debt. The issuing bank does not have the same capital requirements when the debt is securitized as when the debt is held on its balance sheet.

In 1996, $180.7 billion dollars of credit card debt was securitized, about 36 percent of the total outstanding revolving credit.[17] Currently, about $300 billion in securitized credit card debt is outstanding or about 31.8 percent of outstanding revolving credit.[18] The amount of new credit card asset-backed securities issued plummeted with the financial meltdown in the fourth quarter of 2008. In 2007, the dollar value of new credit card asset-backed securities was about $25 billion each quarter, increasing slightly to $29 billion the first quarter of 2008 and declining slightly to $21 billion in the second quarter.[19] But after Lehman Brothers declared bankruptcy in September 2008, the demand for asset-backed securities froze and issuances of new asset-backed securities came to a halt in October 2008.[20] Only $3 billion worth of credit card asset-backed securities were issued in the first quarter of 2009.[21] (See Figure 1)

Figure 1. New Originations of Credit Card Asset-Backed Securities and Credit Card Receivables as a Percent of Total Revolving Debt Outstanding
1996 to 2009 Q1



Sources: Federal Reserve Board and Securities Industry and Financial Markets Association.

On November 25, 2008, in order to increase the availability of credit to households and small businesses, the Federal Reserve Board announced the Term Asset-Backed Securities Loan Facility (TALF).[22] Under TALF, which in February was incorporated as part of the Obama administration's Consumer and Business Lending Initiative, the Federal Reserve Bank of New York will lend up to $200 billion on a non-recourse basis to holders of AAA-rated ABS backed by newly and recently originated consumer and small business loans.[23] The first operation of the TALF was conducted March 17-19 this year. To date, $9.2 billion dollars in loans have been issued through TALF for credit card ABS.[24]

MORAL HAZARD EFFECT OF RISK SPREADING BY CREDIT CARD COMPANIES

The experience with subprime mortgages and mortgage-backed securities has proven that lenders take greater risks when they believe that this risk is shared or sold off to others. This perception of risk-sharing led to lower underwriting standards in both the mortgage market as well as the credit card market. At the same time, it has become obvious from the collapse of banks issuing these bad mortgages that the banks did not completely shift the risk of loaning to people who were not able to pay them back.

Just as delinquency and foreclosure rates have risen in the mortgage market, so have defaults, or charge-offs, in the credit card market. And available credit has declined because of investors' weakened appetite for asset-backed securities.

However, unlike the mortgage market, credit card companies have an additional way of spreading the risk and cost of defaults. They can share the risk with other, credit-worthy cardholders who hold balances on their credit cards by increasing the interest rate on those cardholders. In this way, credit card companies can recoup the losses of charge-offs.

If cardholders could switch to another credit card instantaneously and without cost, credit card companies would lose customers when they raised interest rates. However, because of the problems in the asset-backed securities market and the declines in credit card securitization, card offers are declining. This makes it costly for credit cardholders to search for and switch to a new, lower interest card.[25] And, as described in the Appendix, practices such as "universal default," "any time, any reason" interest rate changes, and double-cycle billing make it much more difficult for credit cardholders to switch to lower interest rate charges, even during good economic times.

Although data on breakdowns of credit card fees and interest revenues are not publically available, comments submitted to the Federal Reserve Board and related agencies during the rule-making process generated some information about the profitability for credit card companies to change interest rates on existing balances. According to submitted comments, the inability to impose penalty interest rates on the existing balances for accounts under universal default (other than those where the account is 30 or more days past due) would lead to a lost interest yield of 0.872 percent, or an annualized interest loss of $7.4 billion.[26] Additionally, the inability to change the interest rate on existing balances on other customers through a general change in terms would lead to a lost interest rate yield of 0.321 percent or an annualized loss of $2.7 billion.[27] Together, it appears that these provisions yield approximately $10 billion in interest payments to credit card companies -- a substantial portion of the $18 billion after-tax return on assets reported by credit card issuers in 2007.[28]

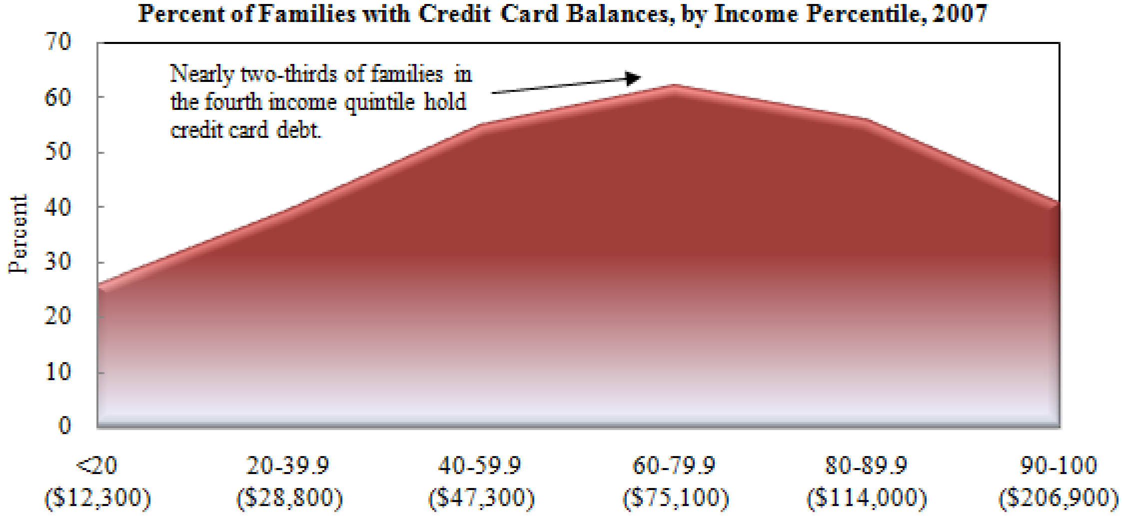
Investors' unwillingness to purchase new asset-backed securities will motivate credit card companies to conduct better risk evaluations of new cardholders in the future only if credit card companies cannot make up lost revenues from more creditworthy cardholders.[29] In the current economy, cardholders, even those with good credit scores, are finding it more difficult to find new credit cards and are forced to pay higher interest rates that don't reflect their own credit risk. These higher interest rate charges don't reflect the increased risk of the cardholder, but instead reflect the revenue shortfall from other delinquent cardholders.[30]

If interest rates increase to high penalty levels, cardholders who would be able to make payments when interest rates were lower may be tipped into bankruptcy by higher rates. Some of these rates are as high as 30 percent annualized percentage rate in interest.[31] On a balance of $3,000, an increase in interest rates from 10 percent to 30 percent would increase payments by $50 month, tripling the interest rate portion of their bill, a large burden for cash-strapped families.

Of course, consumers who use their credit card only for transactions and not for credit – paying off their balances at the end of every billing cycle – are less likely to be affected by these provisions. However, making a payment even a single day late can trigger penalty interest rates, and due to double-cycle billing, the cardholder will have to pay that penalty rate for the next billing cycle, even though the old balance was already paid off. According to the most recent Survey of Consumer Finances, middle class families are most likely to hold balances on their credit cards. (See Figure 2)

Figure 2: Middle Class Has Largest Share of Those Holding Credit Card Debt

Percent of Families with Credit Card Balances, by Income Percentile, 2007



Note: Values in parentheses represent real median incomes for that percentile range in 2007 dollars.
Source: Federal Reserve Board, *Survey of Consumer Finances*.

INDEBTED CONSUMERS UNLIKELY TO SPEND

While consumer indebtedness has fallen during this recession, the ratio of debt-service payments to disposable personal income (13.9 percent in the fourth quarter of 2008) is still much higher than it was from 1980 to 2004.[32] A broader measure of indebtedness, the financial obligations ratio (FOR), which adds outstanding mortgage payments for homeowners and rental payments on tenant-occupied property to debt-service, shows the ratio of financial obligations to disposable personal income is 17.52 for homeowners and 26.31 for renters.[33] While these ratios are slightly lower than before the recession began, they still represent a substantial portion of income and a high degree of vulnerability to shocks in income.

Some provisions imposed by credit card companies, such as universal default and penalty interest rates, will hurt the economy by forcing consumers to pay more on debt payments. The sheer amount of credit card debt may also affect the length and type of recovery, as more families cut back on spending to cope with the economic downturn.

The ability of individuals to service their debt is a function of two factors: (1) the level of the payments; and (2) the income and assets they have available to meet those payments. The most recent measure of household wealth shows a year-over-year decline in household net worth of 17.89 percent.[34] The unemployment rate has risen 4 percentage points since the start of the recession and more than 5.7 million jobs have been lost.[35] The median duration of unemployment has risen to almost 3 months with 1 in 7 of the unemployed still unemployed for over a year. Furthermore, 15.8 percent of the work force is underutilized – either unemployed, working part-time because of the inability to find full-time employment, or "marginally attached" to the labor force.[36] As households become more financially strapped, they tend to carry ever-increasing balances on their credit cards. Unlike in the past, homeowners can no longer refinance their home mortgage to pay off their credit cards — they will now be faced with rising credit card debt and "upside down" mortgages.

While some Americans may be able to borrow against their 401(k) pensions, such loans take away from future retirement income. Moreover, given the current downturn in the labor and financial markets, the balances from which workers have to borrow are smaller. As all the bills come due, it is clear that consumer debt financing is not a sustainable way to grow the economy.

A high debt burden, or financial distress, occurs when families have unusually large total debt payments relative to their incomes, typically around 40 percent. The most recent Survey of Consumer Finances, conducted before the recession, reports that 14.7 percent of American families held high debt burdens.[37] These debt burdens are not always being repaid. Personal bankruptcy rates were up 28.44 percent for fiscal year 2008.[38]

High debt burdens differ by several factors including income, age, and homeownership. According to Survey of Consumer Finances data, 26.9 percent of families in the lowest income quintile and 19.5 percent of the second lowest income quintile have high debt burdens, compared to 3.8 percent of the highest income decile and 8.1 percent of the second highest income decile.[39] Thus, families with lower incomes have the greatest need to borrow on their credit cards, and are the most economically vulnerable during recessions.[40]

CONCLUSION

The current recession poses a significant threat to the well-being of American families, who are likely to rely more heavily on their credit cards to make ends meet. As families find themselves under increasing burdens, practices by credit card companies could add to household financial distress.

The financial crisis has limited households' access to credit, decreasing the competitiveness of the credit card industry. Thus, credit card companies are more likely to be able to charge higher rates without losing all of their customers. Credit card companies will have no incentive to conduct proper underwriting of new accounts, since losses can be spread among the existing account holders who have fewer opportunities to change cards.

As the complexity and availability of financial instruments have increased, new consumer protections have become increasingly important—not just for families, but also for the economy. Consumers facing higher costs of credit are more likely to use any extra money to pay down existing debt rather than engage in new spending, prolonging a vicious cycle of job losses and reductions in consumer spending. Moreover, unfair practices by card issuers will cause families to spend more to service their debt, instead of making new purchases that would boost our sagging economy. The unchecked practices by credit card issuers will only exacerbate the current crisis.

APPENDIX

ANTI-COMPETITIVE CREDIT CARD PRACTICES AND THEIR IMPACT ON CONSUMERS

As credit card use and debt have grown, policymakers and consumer advocates have questioned the extent to which credit cardholders understand their credit card terms and conditions. The most egregious practices by credit card companies include raising interest rates on existing balances, even if the cardholder has not been delinquent in paying this credit card. In the Final Rules issued by the Federal Reserve System, Office of Thrift Supervision, and National Credit Union Administration (henceforth referred to as the "Final Rules"), four circumstances in which many card issuer raise rates are described: (1) circumstances that are completely unrelated to the consumer's behavior but may be related to market conditions; (2) consumer behavior that is unrelated to the account on which the rate is increased; (3) consumer behavior that is related to the account in question but does not violate the terms of the account (for example, exceeding a certain percentage of the credit line on the account); and (4) consumer behavior that violates the terms of the account (such as paying late or exceeding the credit limit).[1] Increases in interest rates that are tied to consumer behavior not related to the account on which the rate is increased, such as a deterioration in the card holder's credit rating, even when the card holder is in good standing on the current card, are called "universal default" provisions. Increases that are not linked to any change in card holder behavior are called "any time, any reason" repricing or change-in-terms repricing. Under universal default, the interest rate paid by the card holder increases to relatively high penalty interest rates if cardholders pay late or exceed credit limits—some as high as 30 percent annualized percentage rate in interest.[2]

In addition to retroactively increasing interest rates, many credit card companies use "double-cycle" or "two-cycle" billing, which charges interest not only on the current balance due, but also on the previous month's charges. This occurs when the cardholder changes from paying balances in full in one month to financing a purchase in the next month and may lead to higher than expected finance charges.[3]

Legislation passed in the House of Representatives and currently being considered in the Senate would eliminate many of these practices currently being used by credit card companies. A table comparing the House bill, H.R. 627 and several Senate bills is included at the end of this Appendix. The Final Rules will become effective July 1, 2010.[4]

Credit card companies have the incentive to include provisions to increase interest rates on existing balances because the debt held by credit cardholders is not secured by any underlying assets. If the credit card company feels the cardholder may not be able to make payments on all of their outstanding debt in the future, the credit card company has the incentive to raise the interest rate paid by the credit cardholder immediately for two reasons: 1) increasing the interest rate will increase a cardholder's incentive to pay the higher cost debt first; and 2) if the cardholder becomes financially insolvent, the higher interest rate on the outstanding balance will increase the outstanding balance of the cardholder to that credit card, thus increasing the credit card company's share of the cardholder's assets in the case of bankruptcy.[5] These incentives are known as the "common pool" problem.[6]

As discussed below, these practices make it more difficult for credit cardholders to switch to lower interest credit cards as well as increasing the probability that the cardholder will go bankrupt.

The Common Pool Problem

Attempts by one credit card company to collect payment out of the credit cardholder's common pool of assets increases the probability that other credit card companies (or other unsecured debt holders) will not be able to collect and will also increase the probability that the credit cardholder will default on his or her outstanding debt. The credit card company has every incentive to engage in this behavior because the benefits of increasing the credit cardholder's interest rate accrue to the credit card company, while the cost of doing so—the increased probability of bankruptcy—is spread over all of the credit cardholder's lenders.

The common pool problem has long been recognized in the economics literature as "the tragedy of the commons" where an individual's actions taken to maximize the individual's self interest end up having detrimental effects on everyone.[7] Using fishing as an example, the first economics paper on this topic showed that in the absence of property rights, each fisherman has the incentive to overfish the seas.[8] Thus, even a renewable resource like fish would be depleted. Each fisherman has the incentive to catch too many fish since the gains from catching an additional fish go to the individual fisherman, while the costs of overfishing—resource depletion—are borne by the entire industry.

Because of the fear that either the assets of the cardholder that could be divided among creditors are less than the value of the total outstanding debt or that the ability of the cardholder to earn money to make debt payments will exceed the debt payments on all outstanding debt, credit card companies have the incentive to apply penalty interest rates, invoke universal default, and "any time, any reason" repricing.

At the same time, these provisions increase costs to the credit cardholder during the period of time that the credit cardholder is searching for a lower interest credit card. Currently, credit card companies can announce an immediate increase in interest rates on outstanding balances held by the borrower. It takes time for the credit cardholder to find a new credit card with a lower interest rate that is willing to extend credit and transfer the outstanding balance of the higher interest rate card. During the time that the credit cardholder is searching for a lower interest rate credit card, he or she has to pay the higher interest rate. The increased interest payments lower the ability of credit cardholders to switch to a credit card offering a lower interest rate since the borrower will need to transfer a larger balance to the new card. Further, difficulty in deciphering disclosure statements, especially those of credit cards with these more complicated pricing provisions, increases the costs to credit cardholders of searching for a new credit card with a lower interest rate.

High Search and Switch Costs Due to Penalty Rates and Double-cycle Billing

High costs of searching for a lower priced card increase the ability of credit card companies to either charge high interest rates or use penalty interest rates.[9] Since consumers face costs in locating the lower interest cards, higher interest cards are able to stay in business and able to hold onto some of their customers.[10] As noted in the Final Rules, consumer cannot reasonably avoid rate increases designed to increase revenues or to respond to changes in the costs to the institution of borrowing funds, rate increases that are unrelated to the consumer's performance on the account in question, or rate increases based on behavior that does not violate the account terms.[11] Some consumers may not be able to find another card with a rate that is comparable to the pre-increase rate.[12] And, consumers may be discouraged from even looking for another card since the majority of cards allow rate increases at any time.[13] Further, to the extent that credit card companies offer low initial rates to encourage customers to switch cards, the fact that credit card companies can (and do) increase those initial interest rates, lowers the incentives for consumers to switch to a new card because of the fear that the low rates will immediately be replaced by a higher interest rate.

With a higher interest rate in effect, the outstanding balance held by the credit cardholder is likely to increase, since any money used to pay the penalty interest rate could not be used by the credit cardholder to reduce the outstanding principal. As the outstanding balance increases, it is likely that the credit rating of the cardholder will also fall since credit scores are inversely correlated with the ratio of outstanding debt to credit limit. Opening new lines of credit and applying for new credit cards can have a negative impact on their overall credit score.[14] And closing the old account in favor of a new account can lower the cardholder's credit score. The potential decline in credit score lowers the cardholder's incentives to look for a new, lower interest card.

Penalty interest rate increases are substantial—interest rates can increase from an initial range of 10 to 16 percent to 24 to 30 percent.[15] The corresponding increase in the outstanding balance due to the increased interest charges can affect the cardholder's ability to find a lower interest credit card since the credit cardholder's increased indebtedness increases the credit card companies' perceptions that the credit cardholder is a credit risk.[16]

Economists have argued that credit card use puts households in an unstable financial position, making them unable to weather a catastrophic event that they might otherwise be able to withstand.[17] Penalty interest rate may be a cause of a financial distress tipping a household into bankruptcy, especially a household that is experiencing a decline in income due to a cut in hours, a layoff or job loss.

Although legislation that requires all issuers to disclose their interest rates, fees, and grace periods has been in place for two decades, these disclosure requirements are not easily understood by half of the adult population. As the complexity of repricing provisions increases, so do the costs to credit cardholders of searching for a lower interest credit card.

Double-cycle Billing

If a cardholder changes from paying off his or her entire balance to holding a balance on their credit card, under double-cycle billing, the cardholder retroactively forfeits the interest-free grace period that credit cards offer to customers who pay off their cards in full every month.

Because interest rate charges calculated using double-cycle billing are not transparent or easily understood by cardholders, the cost of using the credit card may be higher than expected to the cardholder.[18] A cardholder facing a larger than expected interest charge due to double-cycle billing may not be able to pay off the card in full and will incur higher finance charges. Even if the credit card holder switches the outstanding balance to a new card, he or she will still be liable for interest to the old credit card company at the end of the next billing cycle since only customers with zero balances get a grace period without interest.[19] Because the cardholder will owe interest to the old credit card company even after he or she switches to a lower interest rate card, the costs of switching cards are higher, further depressing the incentives and ability of a cardholder to switch to a lower interest credit card.

While some argue that the forfeiture of interest-free grace periods in double-cycle billing (resulting in higher finance charges) is risk-based pricing,[20] other analysts have pointed out that double-cycle billing cannot be described as risk-based pricing since those finance charges are based on balances that have already been paid off.[21]

REPORT ENDNOTES

[1]Federal Reserve Board, Survey of Consumer Finances, 2007.

[2]Lawrence M. Ausubel and Amanda E. Dawsey, *Penalty Interest Rates, Universal Default, and the Common Pool Problem of Credit Card Debt*, Working Paper, March 2008, pp. 1-2.

[3]Standard & Poor's (S&P) Credit Card Quality Index, March 2009. The most recent data on bank credit card charge-offs from the Federal Reserve Statistical Release show a similar increase. The credit card charge-off rate reported quarterly by the Federal Reserve Board is lower, showing a charge-rate of 6.25 percent in the last quarter of 2008, compared with a charge off rate of 4.10 percent in the fourth quarter of 2007. See Charge-off and Delinquency rates on loans and leases at commercial banks, available on-line at http://www.federalreserve.gov/releases/chargeoff/chgallsa.htm.

[4]Federal Reserve Board, March 2009, Consumer Credit, Federal Reserve Statistical Release, Washington D.C., http://www.federalreserve.gov/releases/g19/current/g19.htm.

[5]The targeted federal funds rate was lowered from 5.25 percent to 4.75 percent on September 18, 2007, 4.50 on October 31, 2007, and 4.25 percent on December 11, 2007. It has been been between 0 and .25 percent since December 16, 2008.

[6]Some have argued that if penalty interest rates are not allowed, especially penalty interest rates attached with universal default such as the "any time, any reason" provisions, borrowers may be less motivated to maintain a good credit rating (Jonathan M. Orszag and Susan H. Manning, October 2007, "An Economic Assessment of Regulating Credit Card Fees and Interest Rates," Commissioned by the American Bankers Association, p. 11-12). Further, they argue that limiting penalty interest rates on existing balances will reduce access to credit for some borrowers and raise interest rates for all cardholders (Orszag and Manning, p. 38). However, the Federal Reserve Board of Governors, Office of Thrift Supervision, and National Credit Union Administration's Final Rules concluded that, except in certain limited circumstances, "increasing the annual percentage rate applicable to the outstanding balance on a consumer credit card account is an unfair practice under 15 U.S.C. 45(n) and the standards articulated by the FTC." (Federal Register, Vol. 74, No. 18, January 29, 2009, *Rules and Regulations, Unfair or Deceptive Acts or Practices, 5521*).

[7]In 2004, the breakdown of U.S. card issuer revenues was as follows: net interest (65 percent), merchant fees (interchange fees) (18 percent), penalty fees (9 percent), cash advance fees (5percent), annual fees (3 percent) (Mann, p. 23). Further, full service issuers, who offer a broad portfolio of banking products including credit cards, may be able to charge higher fees for all of their services because the cost to the borrower of switching all accounts may be high (*Ibid.*, p. 22).

Although GAO was unable to find comprehensive data to determine the extent to which fees and penalty interest rates contributed to consumer bankruptcy, they found anecdotal evidence in some bankruptcy cases that involved substantial penalty charges and fees. Further, the credit card companies were unable to provide GAO with evidence regarding the size of penalty fees or interest charges for customers who were unable to make their payments. Additionally, GAO estimated that about 70 percent of credit card company revenues in recent years come from interest charges and that the share of those revenues that are associated with penalty interest rates is growing (Government Accountability Office, *Credit Cards: Increased Complexity in Rates and Fees Heightens Need for More Effective Disclosures to Consumers*, GAO 06-929, Washington, D.C., September 12, 2006, p. 8).

[8]April 21, 2009, Joint Economic Committee Hearing "Too Big To Fail Or Too Big To Save?, " transcript, in answer to Representative Brad Miller's comments regarding arguments heard against Mrs. Maloney's credit card bill and other consumer protections is that now is not the time to do anything that will restrict credit.

[9]See Alicia M. Robb, et al., "Patterns of Financing: A Comparison between White- and African-American Young Firms," February 2009, The Kauffman Firm Survey, Ewing Marion Kauffman Foundation, Table 4. This table shows that white small business owners average $59,998 in total financial capital of which $3,486 comes from personal credit cards or other owner loans and $6,163 business credit card balances. Black small business owners

had $26,318 in total financial capital of which $2,505 comes from personal credit cards and other consumer loans and $4,898 in business credit card balances.

[10]Kent Hoover, "SBA misses deadlines on stimulus programs," Atlanta Business Chronicle, April 26, 2009.

[11]Federal Reserve Board, March 2009, *Consumer Credit*, Federal Reserve Statistical Release, Washington D.C., http://www.federalreserve.gov/releases/g19/current/g19.htm, released May 7, 2009.

[12]*Ibid.*

[13]The Federal Reserve Board's *Survey of Consumer Finances* is a triennial survey of the balance sheet, pension, income and other demographic characteristics of U.S. families. The survey also includes information on consumer use of financial institutions. The most recent survey is 2007: *Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances,* http://www.federalreserve.gov/pubs/bulletin/2009/pdf/scf09.pdf.

[14]*Ibid.*

[15]Federal Reserve Board, March 2009, *Household Debt Service and Financial Obligations Rations,* Federal Reserve Statistical Release, Washington D.C., http://www.federalreserve.gov/releases/housedebt/default.htm.

[16]For a discussion of the effect of implicit recourse in the credit card market, see Charles Calomiris and Joseph Mason, 2004, "Credit Card Securitization and Regulatory Arbitrage," *Journal of Financial Services Research*, 26:1, 5-27.

[17]Asset-backed Securities Outstanding from Securities Industry and Financial Markets Association (SIFMA) http://www.sifma.org/uploadedFiles/Research/Statistics/SIFMA_USABSOutstanding.pdf ; Total credit outstanding is from Securitization rates calculated by dividing the dollar value of outstanding securities by the total credit outstanding.

[18]*Ibid.* SIFMA ABS Credit card receivables outstanding as of 2009 Q1.

[19]SIFMA, Securitized credit card receivables http://www.sifma.org/uploadedFiles/Research/Statistics/SIFMA_USABSIssuance.pdf .

[20]Federal Reserve Board of Governors, Press Release, November 25, 2008.

[21]SIFMA, Securitized credit card receivables http://www.sifma.org/uploadedFiles/Research/Statistics/SIFMA_USABSIssuance.pdf .

[22]Federal Reserve Board of Governors, Press Release, November 25, 2008. TALF loans have a term of three years. Both consumer and corporate credit card receivables are eligible.

[23]*Ibid.*

[24]$2.8 billion in March, $.9 billion in April, and $5.5 billion in May. See Recent Operations for the Term Asset-Backed Securities Loan Facility, http://www.newyorkfed.org/markets/talf_operations.html.

[25]*See also* Chantal Tode, "Credit card direct mail offer volume declines sees exception only with airlines, Wal-Mart," DMNews, February 29, 2009 available at http://www.dmnews.com/Credit-card-direct-mail-offer-volume-decline-sees-exception-only-with-airlines-Wal-Mart/article/127677/ . Offers of co-branded airlines card may not be declining because those cards have a much higher proportion of superprime (FICO score above 765) than standard credit cards. These cards are also attractive to airlines because they generate customer loyalty. *See* Edgar, Dunn & Company, "Defining the key performance indicators for your cobranded credit card programs," Presenta

tion to Ancillary Revenue Airline Conference, November 15-16, 2007, available at http://www.airlineinformation.org/conferences/2007_ARAC/documents/UlfGeismar_Edgar_Dunn.pdf.

[26]See Letter to Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System, et al., Docket No. R-1314, from Oliver Ireland, Morrison & Foerster LLP, August 7, 2008, p. 5. The study was done by Argus Information and Advisory Services, LLC, a data processor, and covers about 70 percent of the credit card industry. http://files.ots.treas.gov/comments/bdc5cc5c-1e0b-8562-eb23-ff7159e49505.pdf.

[27]Morrison and Foerster Letter, p. 6.

[28]Darryl E. Getter, April 24, 2009 CRS report, p. 2 (reporting SourceMedia data).

[29]This view was shared by Ben Bernanke, Chairman of the Board of Governors of the Federal Reserve System. In the statement accompanying the release of the Final Rules, he stated "Although these rules take some new approaches, at their foundation are familiar principles and goals. Above all, the rules seek to promote responsible use of credit cards through greater transparency in credit card pricing, including the abolition of pricing practices that are deceptive or unfair. Greater transparency will enhance competition in the marketplace and improve consumers' ability to find products that meet their needs. From the lenders' perspective, reduced reliance on penalty rate increases should spur efforts to improve upfront underwriting." See Statement by Chairman Ben Bernanke, December 18, 2008, available online at http://www.federalreserve.gov/newsevents/press/bcreg/bernanke20081218a.htm.

[30]See, e.g., The Pew Charitable Trusts, "Safe Credit Card Standards," Pew Safe Credit Cards Project, at p.2 & n.5 available on-line at www.pewtrusts.org/creditcards (citing a number of news reports regarding card companies raising rates and changing terms on accounts in good standing).

[31]Ausubel and Dawsey, p.1.

[32]Federal Reserve Board, March 2009, *Household Debt Service and Financial Obligations Ratios,* Federal Reserve Statistical Release, Washington D.C., http://www.federalreserve.gov/releases/housedebt/default.htm. The financial obligations ratio (FOR) adds automobile lease payments, rental payments on tenant-occupied property, homeowners' insurance, and property tax payments to the debt service ratio. The homeowner FOR includes payments on mortgage debt, homeowners' insurance, and property taxes, as well as payments on consumer debt and automobile leases.

[33]*Ibid.*

[34]Federal Reserve Board, Flow of Funds Balance Sheets. B.100 Balance Sheet of the Household and NonProfit Organizations, data through fourth quarter of 2008.

[35]Bureau of Labor Statistics, Current Population Survey, Table A.1. Employment status of the civilian population by sex and age, and Current Employment Statistics, Table B.1. Employees on nonfarm payrolls by industry sector and selected industry detail, April 2009.

[36]Bureau of Labor Statistics, Current Population Survey, Table A.35. Unemployed total and full-time workers by duration of unemployment, and Table A.12. Alternative Measures of Labor Underutilization, April 2009. Marginally attached workers are those that are not counted as part of the labor force, even though they want a job, are available for work, and recently searched for a job.

[37]2007 Survey of Consumer Finances: Table 14.

[38]Annual Bankruptcy Filings, Nonbusiness bankruptcy filings, Administrative Office of the United States Courts, FY 2008 (ending June 30).

[39]2007 Survey of Consumer Finances: Table 14.

[40]Additionally, research has found that workers who do not have adequate health insurance are incurring higher levels of credit card debt to pay for medical expenses. See Demos, January 2007, "Borrowing to Stay Healthy: How Credit Card Debt is Related to Medical Expenses," www.demos.org/pubs/healthy_web.pdf.

APPENDIX ENDNOTES

[1]See Federal Register, Vol. 74, No. 18, January 29, 2009, *Unfair or Deceptive Acts of Practices*, Rules and Regulations, 5498 -5584 (Regulation AA) at 5522.

[2]Lawrence M. Ausubel and Amanda E. Dawsey, *Penalty Interest Rates, Universal Default, and the Common Pool Problem of Credit Card Debt*, Working Paper, March 2008, pp. 1-2. Penalty interest rates can be triggered by late payments to the credit card company, exceeding the credit limit, or holding a balance or using a credit line beyond a particular percentage. In the case of universal default provisions, penalty interest rates can be triggered by late payments to other creditors or any deterioration of the consumer's FICO score, even if the cardholder's account with this card is in good standing. With "any time, any reason" provisions, a penalty interest rate can be triggered for any reason—even in the absence of any deterioration of the cardholder's credit score.

[3]According to the Final Rules, an institution using the double cycle or two-cycle balance computation method assesses interest not only on the balance for the current billing cycle but also on balances on days in the preceding billing cycle. This method generally does not result in additional finance charges for a consumer who consistently carries a balance from month to month (and therefore does not receive a grace period) because interest is always accruing on the balance. The two-cycle method does, however, result in greater interest charges for consumers who pay their balances in full one month but not the next month (and therefore lose the grace period.) *Unfair or Deceptive Acts or Practices*, 5535.

[4]*See Unfair or Deceptive Acts of Practices*, 5498 -5584. In addition, rules requiring 45 days notice for changes in credit card terms or penalty rate increases due to a consumer's delinquency or default or as a penalty are in Amendments to Regulation Z Final Rule, Federal Register, Vol. 74, No. 18, January 29, 2008, Truth in Lending, Board of Governors of the Federal Reserve System, 5244 (Regulation Z).

[5]Additionally, research shows that the 2005 bankruptcy reforms, which made it harder for consumers to default on their credit card debt, simply increased credit card companies' profits without making credit card holders better off. After the 2005 bankruptcy reform, credit cardholders have seen increased interest rates and higher fees, in spite of the lower risk to card issuers that cardholders will default (Michael Simkovic, July 8, 2008, "The Effect of the 2005 Bankruptcy Reforms on Credit Card Industry Profits and Prices," pp. 16-17. Available at SSRN: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1157158).

[6]See Thomas H. Jackson, January 14, 1985, "Translating Assets and Liabilities to the Bankruptcy Forum," *Journal of Legal Studies*; Susan Block-Lieb, 1993, "Fishing in Muddy Waters: Clarifying the Common Pool Analogy as Applied to the Standard for Commencement of a Bankruptcy Case," *American University Law Review,* Vol. 42, 337-431; and Ausubel and Dawsey, "Penalty Interest Rates, Universal Default, and the Common Pool Problem of Credit Card Debt."

[7]The term "tragedy of the commons" comes from a later article. See Garrett Hardin, 1968, "The Tragedy of the Commons," *Science* 162:1243, available at http://www.garretthardinsociety.org/articles/art_tragedy_of_the_commons.html.

[8]H. Scott Gordon, 1954, "The Economic Theory of a Common-Property Resource: The Fishery," *Journal of Political Economy,* Vol. 62:2, 124-142.

[9]The concept of the tragedy of the commons was first described by Aristotle (Elinor Ostrom, 1990, *Governing the Commons: The Evolution of Institutions for Collective Action,* New York: Cambridge University Press, p. 2.) Ostrom also points out that the commons problem has been used to describe everything from famine to the inability of the U.S. Congress to limit its capacity to overspend.

[10]The ability of firms to charge higher prices when consumers face search and switching costs is well documented

in economic literature. See Steven Salop, 1977, "The Noisy Monopolist: Imperfect Information, Price Dispersion and Price Discrimination," *The Review of Economic Studies*, 44:3, 393-406 p. 393; Michael R. Baye, John Morgan and Patrick Scholten, 2006, "Information, Search, and Price Dispersion," *Handbook on Economics and Information Systems,* Terrence Hendershott, ed.; and Lawrence M. Ausubel, March 1991, "The Failure of Competition in the Credit Card Market," *The American Economic Review*, Vol. 8:1, 50-81. Ausubel cites five reasons that search and switch costs may be high in general for credit cards: 1) high information costs of discovering low interest rate cards; 2) costs of filling out applications and fear of rejection; 3) annual fees billing once a year; 4) perception of acquiring a better credit rating or higher credit limit by holding the same bank's card for a long period of time; and 5) time lag between applying for and receiving the new card (1991, p. 69). See also Simkovic stating that the credit card industry is not competitive due to complex, misleading pricing structures (p. 18).

[11]However, researchers have argued that adverse selection—the propensity for higher risk borrowers to respond to credit card solicitations of lower interest rates—is the reason that credit card interest rates do not appear to decline when the underlying cost of funds declines (Ausubel, p. 70).

[12]Salop, p. 393.

[13]*Unfair or Deceptive Acts or Practices,* 5521.

[14]*Unfair or Deceptive Acts or Practices*, 5524.

[15]A study by the Pew Charitable Trusts found that 93 percent of cards allowed the issuer to raise any interest rate at any time by changing the account agreement and 87 percent of cards allowed the issuer to impose automatic penalty interest rate increases on all balances, even if the account is not 30 days or more past due. Safe Credit Card Standards, p. 1.

[16]Credit rating agencies do assume that new credit cards will have a higher default rate than seasoned credit cards (Calomiris and Mason, p. 12). See also Todd J. Zywicki, "The Economics of Credit Cards," George Mason University School of Law, Law and Economics Working Paper Number 00-22, p. 87, stating that "It may be the case that when an individual switches to a new card in the short run he suffers some reduction in his credit limit."

[17]Ausubel and Dawsey, p. 1.

[18]Ronald J. Mann, 2006, "Charging Ahead: The Growth and Regulation of Payment Card Markets," New York: Cambridge University Press. Mann states that as "borrowers spiral deeper into financial distress, their switching costs increase, which makes it easier for the card issuer to charge them higher rates and fees. . .it will be difficult for the cardholder to find a new lender who will make an attractive offer" (p. 201).

[19]Mann,p. 64, which cites work by Elizabeth Warren and Amelia Tyagic. Further, Mann states that "In the modern information-based lending world, however, it makes less sense to view the borrowers as operating in full control, to the detriment of hapless and incapable lenders . . .the modern lender (at least in the United States) has access to pervasive and frequently updated information about the credit behavior of its customers" (p. 200). And the card issuer can always terminate the borrower's use of funds by withdrawing the remaining credit line.

[20]*See, e.g., Unfair or Deceptive Acts or Practices at 5535*, stating that the Board's consumer testing indicated that consumers did not understand explanations of balance computation methods.

[21]The remaining interest charge to the old credit card company is due to the card company's practice of charging residual or trailing interest, rather than double-cycle billing. With residual interest, the only way the cardholder can eliminate a balance is to pay more than what is due on their statement or close the account entirely. Closing the account will lower the customer's FICO score, limiting their chances to switch to a lower interest credit card. *See* Written Testimony of Adam J. Levitin, Senate Committee on Banking, Housing, and Urban Affairs, "Modernizing Consumer Protection in the Financial Regulatory System: Strengthening Credit Card Protections," February 12, 2009.

[22]"If a consumer misses a payment or switches from being a convenience user to a revolver, the typical grace period, or a specified time period in which payment can be made without incurring any finance charge, is retroactively eliminated under double-cycle billing. Forfeiture of interest-free grace periods results in higher finance charges; therefore, risk-based repricing has automatically been captured by this billing method." (Darryl E. Getter, April 24, 2009, "The Credit Card Market: Recent Trends and Regulatory Proposals," Congressional Research Service.)

[23]*See* Adam J. Levitin, March 9, 2008 revision, "A Critique of the American Bankers Association's Study of Credit Card Regulation" Working Paper, Georgetown University Law Center, p. 8.

Legislation in the 111th Congress on Credit Card Practices				
Bill Number	**Title**	**Sponsor**	**Brief Description of Provisions as Amended if Applicable**	**Status**
H.R. 627	**Credit Cardholders' Bill of Rights Act of 2009**	Representative Carolyn Maloney (with 128 co-sponsors)	Prohibits interest rate increases on existing balances except in the cases of variable interest rates that are indexed to a measurement that is not under the creditor's control and is available to the general public, the expiration of a promotional interest rate, failure to comply with a workout agreement, or where the cardholder is more than 30 days late making the minimum payment. Prohibits credit card issuers from increasing rates on a cardholder in the first year after a credit card account is opened, except for expiration of promotional interest rate periods, which must be at least six months. Requires 45 day notice of all rate increases or fees, effective 90 days after enactment. Requires at least 21 days between statement date and payment due date. Prohibits double cycle billing. Requires that payments in excess of the minimum amount due be applied to balances carrying the highest interest rate (High-to-Low method). Allows cardholders to set a credit limit which cannot be exceeded. Restricts over-the-limit fees to being imposed only once during a billing cycle and only once in each of the 2 subsequent billing cycles unless the consumer has obtained an additional extension of credit. Restricts over-the-limit fees caused by a hold rather than actual	Passed by the House of Representatives on April 30, 2009.

Legislation in the 111th Congress on Credit Card Practices				
Bill Number	**Title**	**Sponsor**	**Brief Description of Provisions as Amended if Applicable**	**Status**
			transaction. Requires enhanced consumer disclosures. Requires each statement to contain a telephone number and website address where consumers may request the payoff balance on the account. Revises requirements for prompt and fair credit of payments. Prohibits the issuing of credit cards to consumers under age 18, unless they are emancipated under applicable state law. Limits amount of credit extended by any one creditor to a full-time college student to 20 percent of the annual gross income of the student or $500. Requires written parental approval for credit line increases on accounts for which the parent is jointly liable. Directs the Federal Reserve to collect semiannual data on the types of transactions for which different rates are charged, the various types of fees, the number of cardholders who pay fees, finance charges, or interest, and other matters. Requires the Fed to report to Congress every two years. Additionally, within six months of enactment, the Fed, after consulting with other agencies, must report to House Financial Services and Senate Banking Committees on reduced credit limits and increases of interest rates for the past three years. Requires each creditor to establish and maintain an Internet site on which the creditor shall post the written agreement between the creditor and the consumer for each credit card account; each creditor	

Legislation in the 111th Congress on Credit Card Practices				
Bill Number	**Title**	**Sponsor**	**Brief Description of Provisions as Amended if Applicable**	**Status**
			shall provide the Fed with electronic copies of each agreement. Sets standards applicable to initial issuance of "fee harvester" cards. With the exception of the advanced notification of rate increases, provisions take effect 12 months after the date of enactment, or by June 30, 2010, whichever is earlier. In addition, the Federal Reserve must issue implementing regulations 5 months after enactment, or by June 1, 2010, whichever is earlier.	
S. 235	**Credit Cardholders' Bill of Rights Act of 2009**	Senator Schumer (with 2 co-sponsors)	Provisions are similar to those in H.R. 627. Provisions take effect 3 months after the date of enactment.	Introduced on January 14, 2009 and referred to Senate Committee on Banking, Housing, and Urban Affairs.

Legislation in the 111th Congress on Credit Card Practices				
Bill Number	Title	Sponsor	Brief Description of Provisions as Amended if Applicable	Status
S. 414	**Credit Card Accountability, Responsibility and Disclosure (CARD) Act of 2009**	Senator Dodd (with 21 co-sponsors)	Prohibits interest rate increases on existing balances except in the cases of a change in the variable interest rate, the expiration of a promotional interest rate, failure of the cardholder to comply with the terms of a workout agreement, or a 60-day late payment by the cardholder where the cardholder can "cure" with 6 months of on-time payments. Prohibits credit card issuers from increasing rates or fees on a cardholder in the first year after a credit card account is opened, except for expiration of promotional interests rate periods, which must be at least six months. Requires 45 day notice of rate increases, effective 90 days after enactment. Requires at least 21 days between statement date and payment due date effective 90 days after enactment of the bill. Prohibits double cycle billing. Requires that payments must be applied to balances with the highest interest rate first. Revises requires for prompt and fair crediting of card payments. Allows cardholders to set a credit limit which cannot be exceeded. Requires enhanced consumer disclosures. Prohibits issuance of a credit card on behalf of a consumer under age 21, unless the consumer has submitted a written application	Ordered reported, as amended, by the Senate Committee on Banking, Housing and Urban Affairs on March 31, 2009. The Senate is currently debating the Dodd-Shelby compromise amendment of H.R. 627.

Legislation in the 111th Congress on Credit Card Practices				
Bill Number	**Title**	**Sponsor**	**Brief Description of Provisions as Amended if Applicable**	**Status**
			meeting specified requirements. Requires written parental approval for credit line increases on accounts for which the parent is jointly liable. Amends the Fair Credit Reporting Act to allow underage consumers to elect to be included in certain listings compiled by a consumer reporting agency. Requires the Fed to report to Congress every two years on consumer credit card market (but does not require credit card companies to report data to the Fed). Requires the Fed to issue rules, no later than nine months after bill enactment, to establish standards on fees. Directs the Comptroller General to conduct a study on the use of credit by consumers, interchange fees, and their effects on consumers and merchants and report to Congress in 180 days. Requires each creditor to establish and maintain an Internet site on which the creditor shall post the written agreement between the creditor and the consumer for each credit card account; each creditor shall provide the Fed with electronic copies of each agreement. Set standards applicable to initial issuance of "fee harvester" cards. Prohibits expiration of gift cards less than 5 years after issue and prohibits dormancy fees unless there has been no activity for 12 months. Provisions take effect 9 months after the date of enactment.	

Legislation in the 111th Congress on Credit Card Practices				
Bill Number	Title	Sponsor	Brief Description of Provisions as Amended if Applicable	Status
S. 165	**Student Credit Card Protection Act of 2009**	Senators Kohl and Durbin	Limits the total credit that can be extended to a full-time, traditional-aged college student under a college student credit card account (unless joint liability). Prohibits increasing the credit limit on an account with joint liability without approval Requires creditor to obtain adequate proof of income, income history, and credit history, before a college student credit card account is opened.	Introduced on January 7, 2009 and referred to Senate Committee on Banking, Housing, and Urban Affairs.
S. 131	**Credit Card Minimum Payment Notification Act of 2009**	Senator Feinstein	Requires that companies warn consumers that making only the minimum payment will increase the amount of interest, amount, and the time it will take to repay outstanding balance. These requirements would not apply if the minimum payment is at least 10% of the debt on the card, or in any billing cycle in which no finance charges are imposed on the account, or if the balance on the card is less than $500.	Introduced on January 6, 2009 and referred to Senate Committee on Banking, Housing, and Urban Affairs.