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Credit card law remains a net gain for consumers

Washington, DC, Oct. 2, 2013 — Abusive credit card tactics, including retroactive interest rate hikes and hidden, excessive, and unfair fees have virtually disappeared from the marketplace since the Credit Card Accountability, Responsibility and Disclosure Act (CARD) Act took effect. Consumers now have more certainty about due dates, grace periods and late payments.

“Consumers have seen real bottom-line savings since credit card issuers have been banned from raising interest rates on account balances and limits have been placed on penalty fees,” says Linda Sherry deputy director national priorities of Consumer Action.

Today the Consumer Financial Protection Bureau (CFPB), at a field hearing in Chicago, pointed to a number of key CARD Act benefits. Among them:

- Late fees have dropped by an average of \$6 since the CARD Act limited late fees.
- Over-the-limit fees have effectively been eliminated by a requirement that cardholders opt in to allow transactions that would exceed their credit limits.
- Access to credit remains available to consumers who can demonstrate they have the ability to repay revolving credit lines.

Sherry noted that complaints about credit cards to Consumer Action’s hotline dropped significantly since the law was phased in beginning in early 2010.

In January, Consumer Action surveyed cardholders to learn more about the impact of the CARD Act. Overall, respondents reported that credit card companies are treating them the same or better than before the law and that the disclosures mandated by the law have helped them take action to avoid credit card debt. Nearly half (45%) of consumers surveyed said that they pay more every month because of the minimum payment warning on their monthly statements.

However, Consumer Action believes additional consumer protections are necessary to address outstanding issues, including:

- Interest rates on *future* purchases can be raised any time for any reason with notice.
- Card issuers can drop credit lines, cancel accounts and increase minimum payments without notice.

- As conditions of using the card, binding mandatory arbitration to resolve disputes can be required and consumers can be barred from joining class actions.
- Cardholders whose rate is increased for “market based” reasons have a right to have their accounts reviewed for a lower rate after six months. We can find no public evidence that issuers have reasonable written policies and procedures in place to conduct the review, as required by law.

These issues can be very costly for consumers, damaging a cardholder’s credit score and budget. And, consumers have limited (or no) right to opt out of changes in rates or terms.

The CFPB has its own list of outstanding areas of concern:

- *Add-on products*, such as ID theft protection and debt cancellation coverage, mislead consumers who pay for the services but receive for little or no protection in return. The CFPB has recovered \$700 million in refunds for consumers for these deceptive products.
- *Subprime credit card fees* paid before an account is opened and that often equal 25% or more of any credit line that is granted. (It was determined that the CARD Act prohibition on such fees was not within the scope of the law because these fees are paid *prior* to account opening.)
- *Online disclosures* will be reviewed by the Bureau to ensure that consumers who pay online or via automatic payments are seeing required disclosures on their bills.

“We’re pleased analysis by the CFPB confirms that the CARD Act saves money for cardholders without undue harm to credit access,” says Sherry. “We look forward to working with the bureau to ensure that loopholes in credit card consumer protections are closed for good.”

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Consumer Action has been a champion of underrepresented consumers since 1971. A national, nonprofit 501(c)(3) organization, Consumer Action focuses on financial education that empowers low to moderate income and limited-English-speaking consumers to financially prosper. It also advocates for consumers in the media and before lawmakers to advance consumer rights and promote industry-wide change particularly in the fields of credit, banking, housing, privacy, insurance and utilities. www.consumer-action.org