

For immediate release

Contacts: Gail Hillebrand, Consumers Union, 415-431-6747
Linda Sherry, Consumer Action, 202-544-3088
Travis Plunkett, Consumer Federation of America, 202-387-6121
Ed Mierzwinski, U.S. PIRG, 202-546-9707

New GAO credit card study highlights anti-consumer practices in the credit card industry; consumer groups call for reforms

Washington, DC, Wednesday, Oct. 11, 2006 — National advocates working closely to end abusive and anti-consumer practices by the credit card industry today reacted to the release of a long-awaited GAO report documenting credit card fees, interest rates and disclosure practices from the six largest credit card issuers. According to Consumer Action, the Consumer Federation of America (CFA), Consumers Union and U.S. Public Interest Research Group (PIRG), the report points out the need for simplified pricing that consumers can better understand, and the importance of prohibiting abusive credit card pricing practices (such as two cycle billing, residual or “trailing interest” and “universal default.”)

The report finds that there are many new types of credit card fees, and that they have risen much faster than inflation. It also finds that current fee disclosures are difficult to understand, bury important information, and often fail to convey to cardholders when late fees would be charged and what actions could result in penalty interest rates.

Linda Sherry, Director of National Priorities for Consumer Action, said, “In our experience, getting accurate information from credit card companies is difficult and exasperating. We hope the new GAO report will be a wake-up call to lawmakers and regulators to act quickly to end these abuses.” For more than 20 years Consumer Action has conducted surveys of credit card rates, fees and conditions and the organization’s survey has become a barometer of industry practices. The new GAO report relies on Consumer Action for historical data about the industry over the past 10 years. The focus of Consumer Action’s studies is to track the industry and help consumers obtain clear and complete facts about rates and charges, before they apply for credit.

“What we need is better – not more – disclosure,” said Travis Plunkett, Legislative Director of CFA. “Consumers need user-friendly information on important fees and interest rates, including fees and terms that currently aren’t disclosed at all,” he said. “Just as importantly, the report highlights several unfair practices used by credit card companies that Congress should ban, such as two-cycle billing, which results in interest rate charges that are too high.

Credit card companies have made their pricing so complicated that it is hard for consumers to even know all the fees, much less choose among different pricing packages. The GAO found that 35% of active credit cardholders of the six largest issuers were charged at least one penalty fee averaging \$33.64 in 2005. Gail Hillebrand, Senior Attorney at Consumers Union, said, “When special fees are imposed on 35% of cardholders, this shows that something is seriously wrong with credit card pricing. Credit card companies and the policymakers who oversee them need to look at simplifying the pricing by reducing the types of fees, so that consumers can make informed choices based on the real price of using a particular credit card.”

“Owning a credit card company is still a license to steal, according to this GAO report,” said Ed Mierzwinski, Consumer Program Director of U.S. Public Interest Research Group (PIRG). “For too long, the Congress and the do-nothing regulators have let the banks get away with practices that should be banned.”

“This is a ‘follow the leader’ industry,” said Sherry. “When one issuer adopts an anti-consumer practice, others quickly follow. Consumers interviewed by the GAO did not understand the fees on the credit cards they held. Issuers are simply not being held accountable for clear disclosure or for the abusive practices they heap on cardholders.”

The report, requested by Sen. Carl Levin (D-MI), ranking Democratic Member of the Permanent Subcommittee on Investigations, is the first federal study to compile in a single place a description of the recent fees, interest rates and disclosure practices of 28 popular credit cards from the six largest credit card issuers. Titled “Credit Cards: Increased Complexity in Rates and Fees Heightens Need for More Effective Disclosures to Consumers,” it is available today on the GAO web site (www.gao.gov.)

According to the GAO report, U.S. consumers now have about 690 million credit cards and the total amount charged on them between 1980 and 2005 has grown from approximately \$69 billion to more than \$1.8 trillion.

Meanwhile, penalty interest rates and fees have increased as a portion of credit card issuer revenues. From 1986 to 2004, the average profitability of large credit card-issuing banks was more than double that of all commercial banks.

Some fees are not disclosed at all in the materials provided to cardholders. For example, some issuers charge cardholders a \$5 to \$15 fee to make a single bill payment by telephone; others charge a \$2 to \$13 fee for obtaining a single copy of a billing statement or other record.

The report highlights many existing consumer abuses, including a common but unfair practice known as two-cycle billing. One-third of the credit card issuers studied by GAO use this billing method, which charges interest on credit card debt already repaid by the consumer. The example employed by the GAO assumes that a consumer starts a billing cycle with a zero balance and charges \$1,000 on the credit card. The cardholder makes a timely payment of \$990, reasonably expecting to pay interest on the remaining \$10. Instead, some credit card issuers charge interest on the full \$1,000, even though the cardholder had already paid 99 percent of the balance on

time. While the consumer only owed the credit card company \$10 for 30 days or less in the GAO's example, the interest charge was \$11.02.

Some of the credit cards analyzed by GAO impose penalty interest rates of over 30 percent on cardholders who paid late or exceeded a credit limit. In one instance reported to the GAO, consumers complained to a federal banking regulator about being charged an over-the-limit fee when their account balances exceeded their credit limits due solely to a late fee charged by their card issuer.

The consumer groups called for lawmakers and regulators to:

- Give consumers personalized minimum payment warnings on each monthly statement, calculating the length of time—in months and years—that it will take to pay off the debt, and the total interest costs that will accrue, if the cardholder makes only the requested minimum payment.
- Include new personalized disclosure requirements in all credit card offers, including the credit limit, penalty interest rates, method of calculating the minimum monthly payment, payment-related fees, the impact of two cycle billing and universal default terms, in the “Schumer box” disclosure table in all cardholder agreements.
- Ban “elastic” contract terms that allow issuers to change terms for any reason, including no reason.
- Stop issuers from applying new higher punitive interest rates to the entire existing balance, including past purchases made at a lower interest rate.
- Prohibit punitive “universal default” interest rates based on alleged missteps with another issuer but involving no missed payments to the credit card company itself.
- Require credit card companies to follow the Internal Revenue Service (IRS) and accept the postmarked date as proof of on-time payments.
- Ensure that all fees and other charges closely match the true cost borne by the card issuer.
- Prohibit over-limit fees when the issuer approves the over limit transaction.
- Simplify credit card pricing by reducing the number of fees so that consumers can better compare offers and shop among credit cards.
- Increase penalties for illegal acts. Toughen Truth In Lending Act (TILA) penalties, which have stagnated since 1968 and give aggrieved consumers a private right of action to enforce the Federal Trade Commission Act to challenge unfair or deceptive practices by businesses, including banks.

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