From: "Bridget Claridy" <bclaridy@wdclv.org> on 03/15/2005 12:27:39 PM

Subject: Truth in Lending

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Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th St. and Constitution Ave., N.W.
Washington, DC 20551

Attention: Docket No. R-1217
Truth in Lending

Dear Ms. Johnson,

I am writing to comment on the Federal Reserve Board's recent advance notice of proposed rulemaking (ANPR) on open-ended credit, specifically on the regulation of credit cards. We feel strongly that the current regulatory environment for credit card marketing, implementation, and disclosure of terms is dangerous for consumers. Today, the average American household carries $14,000 in credit card debt, the highest amount ever. Credit card providers have set up such an intricate trap of penalties and fees that many Americans find it hard to pay off their balances. Some of their tactics – whether it be raising rates to those already deep in debt, lowering minimum payments so that consumers revolve more debt, or aggressively soliciting people with poor or unestablished credit history – are particularly destructive. The Federal Reserve Board currently has the opportunity to stop these dishonest practices. While the ANPR addresses a large number of issues, I would like to focus on the issues we find most important.

Abusive Fees: Following the latest rollback of credit card regulation, there is evidence that credit card banks are taking every opportunity to increase the types and amounts of fees. In general, almost all cards issued by major banks have late fees, over-the-limit fees, cash advance fees, and balance transfer fees; other cards may also have annual fees, credit-limit-increase fees, return item fees, and currency conversion fees. In addition, data show that the amounts of these fees have increased over time. For example, late fees averaged $16 in 1995; today they average $32. Research by the Woodstock Institute shows that the late fees, over-the-limit fees, cash advance fees, and balance transfer fees for credit cards offered by credit unions were drastically lower than those offered by banks. The credit union experience illustrates how credit card lending can be done sustainably without charging exorbitant fees.

Payment Allocation and Late Payments: In today's credit card market, a single card may have multiple APRs: for example, one rate for purchases, a higher rate for cash advances, a lower rate for balance transfers, and so on. Furthermore, credit card providers may offer promotional APRs, but the promotion may apply only to one of these several rates. Moreover, banks allocate a consumer's payment first to the lowest-rate and then to high-rate balances to maximize their finance charge income. In addition to this, evidence shows that banks have invented several schemes to increase the number of payments considered "late." A recent survey showed that 58% of banks now have a cut-off time on the due date; thus, if the payment is one minute late, the consumer is charged a fee. Furthermore, banks have squeezed grace periods from 30 days to 20 days. The Board has the opportunity now to rule against both deceptive payment allocation as well as exploitative cut-off times.

Change in Terms: Many banks have started using "universal default," a process in which they routinely review a consumer's credit score and reserve the right to increase his/her rate upon a late payment with **any** creditor. Thus, for example, if a consumer is late once with Bank X, Bank Y could raise its rate, even if (s)he has **never missed a payment** with Bank Y. Often, the rate skyrockets to the default rate, which can be anywhere from 25-30%. Such exorbitant rates will send many cardholders into a downward spiral of debt. The Board has the opportunity to eradicate this practice by amending Regulation Z to require banks to give 60 days' advance notice of a change in rate. Currently, Regulation Z stipulates that advance notice is not required if a rate is increased to default or delinquency.

We sincerely hope that the Federal Reserve Board uses this opportunity to show that it is prepared to balance the legitimate interests of financial institutions with basic safeguards for consumers. The ANPR presents the occasion to eliminate several highly deceptive credit card practices that endanger the financial stability of many Americans.

Sincerely,

Helen Turner