Comments of
Demos: A Network for Ideas and Action

Regarding

Advance Notice of Proposed Rulemaking
Review of the
Open-End (Revolving) Credit Rules of Regulation Z

Federal Reserve System
12 CFR Part 226

Docket No. R-1217

Submitted via mail

These comments are submitted by Demos: A Network for Ideas and Action. Demos applauds and welcomes the Board of Governors review of the Open-End (Revolving) Credit Rules of Regulation Z, which implements the Truth in Lending Act (TILA). Demos' concerns regarding the terms and regulations of revolving credit stem from our research on the rapid increase in credit card debt among households over the last decade. This increase in debt has been aggravated by abusive and deceptive lending practices that are now ubiquitous among credit card issuers. Deregulation of the lending industry over the last 25 years has left consumers with few protections from usurious rates and fees. We strongly encourage the Board to address existing weaknesses in TILA disclosures, but to also use their considerable influence to encourage Congress to pass new legislation to reign in the most abusive practices of the credit card industry.

Demos is a nonprofit, nonpartisan national research and public policy organization based in New York. Over the last two years, Demos has produced several research studies on the growth of credit card debt and possible factors driving the rapid rise in credit card debt among the entire population as well as certain sub-groups. Our concern with the growth in unsecured debt was borne out of overarching interest in the state of family economic well-being in the midst of a changing economy. Our research points to an increased reliance on credit cards as a way in which families have coped with rising basic household costs in the face of slow or stagnant income growth. The rise in credit card debt, however, also raises additional concerns about the ability of families to build assets and savings, particularly as high interest rates and fees are siphoning additional money out of the family paycheck. In researching and documenting the rise in credit card debt, Demos became aware of the role that credit card industry practices play in the ability of indebted families to pay down their credit card debt and get back on the path to financial stability.

It is Demos' hope that significant changes in Regulation Z will help consumers better assess the terms and offers of credit cards. However, we believe that disclosure alone will not address the abusive and deceptive practices that trap households in a cycle of debt from which they can not escape.

Demos' comments are organized in the following manner:

I. Trends in Credit Card Debt and Industry Practices

II. Regulatory Reforms of Truth in Lending Act: Three Issues
   a. The Changes in Terms (Q26 and 27),
   b. Minimum Disclosure Payments (Q31, 32, and 33)
   c. Credit of Payments (Q51)

III. Recommendations for Legislative Reform

I. Trends in Credit Card Debt and Industry Practices

A. The Rise in Debt

Between 1990 and 2001, revolving consumer debt in America more than doubled, from $238 billion to $692 billion. Credit card debt continued to rise in the new century—increasing by 14 percent from $703.9 in 2001 to $800.1 billion in early 2005. These debt trends are expected to continue. The savings rate has steadily declined, and the number of people filing for bankruptcy since early 1990s has more than doubled to nearly 1.6 million in 2004.[1]

These aggregate level trends illustrate that American households are accumulating increasingly higher amounts of credit card debt, with rising numbers suffering a total financial collapse. To better understand how these aggregate trends have played out at the household level, Demos has researched credit card debt trends among various demographic groups using data from the Federal Reserve Board's Survey of Consumer Finances (SCF). The most recent available data is for 2001, which does not capture the full effects of the recession. Our research examines credit card debt *among cardholders with credit card debt*—about 55 percent of cardholders in the 2001 survey. By excluding those families that do not have revolving (outstanding) balances on their credit cards, we can get a more accurate picture of the problem of credit card debt.[2]

[1] American Bankruptcy Institute. "U.S. Bankruptcy Filings 1980-2003." See also "US Bankruptcy Filings, 2004."
[2] For complete details on the growth of debt please see Demos reports, "*Borrowing to Make Ends Meet: The Growth of Credit Card Debt in the 1990s*" and "*Retiring in the Red: The Growth of Debt Among Older Americans,*" and "*Generation Broke*". They are available on our website, www.demos-usa.org .

Our research has found that four groups have experienced the most rapid rise in credit card debt since 1992. These four groups are senior citizens, adults under age 34, and low- and middle-income households. Our research also revealed that African American and Hispanic consumers are more likely to be in credit card debt than any other group. As Table 1 illustrates, the average amount of credit card debt among all households with credit card debt grew 53 percent between 1989 and 2001. The average self-reported balance of indebted households was $4,126 in 2001. It is important to note that the SCF data are based on self-reported amounts of debt by respondents. There is evidence that consumers tend to underestimate their credit card debt. This is suggested by comparing self-reported debt to aggregate figures reported by the Federal Reserve. For example, based on the total credit card debt outstanding in 2002 ($750.9 billion), the average household debt was $12,000 in 2002—roughly three times higher than that reported by families in the SCF survey.[3]

Table 1. Prevalence of Debt and Average Amount of Debt, by Income Group (2001 Dollars)

Family income group	Families holding credit cards in 2001	Families reporting debt in 2001	Average credit card debt in 2001	Percent increase 1989-2001
All Families	**76%**	**55%**	**$4,126**	**53%**
< $10,000	**35%**	**67%**	**$1,837**	**184%**
$10,000 - $24,999	**59%**	**59%**	**$2,245**	**42%**
$25,000 - $49,999	**80%**	**62%**	**$3,565**	**46%**
$50,000 - $99,999	**90%**	**56%**	**$5,031**	**75%**
$100,000 or more	**98%**	**37%**	**$7,136**	**28%**

Demos' calculations using 1989. 1992, 1995, 1998, and 2001 Survey of Consumer Finances

While increasing numbers of African American and Hispanic consumers gained access to credit cards throughout the 1990s, both groups were also more likely to carry a credit card balance than whites, seniors, and young adults. In 2001, nearly 60 percent of African-Americans reported holding a credit card. Of these, an astounding 84 percent carried a credit card balance. Similarly, 53 percent of Hispanics held a credit card. Nearly 75 percent of these Hispanic cardholders carried a balance. (Table 2)

[3] The absolute figures (for example, $4,041 of average debt) are based on data that consumers reported about themselves in surveys. Aggregate data on outstanding revolving credit reported by the Federal Reserve puts the average credit card debt per household at about $12,000—nearly three times more than the self-reported amount.

Table 2. Prevalence of Debt and Average Amount of Debt, by Demographic Group (2001 Dollars)			
Group	Families holding credit cards in 2001	Families reporting debt in 2001	Average credit card debt in 2001
African Americans	**59%**	**84%**	**$2,950**
Hispanics	**53%**	**75%**	**$3,691**
Whites	**82%**	**51%**	**$4,381**
Seniors	**74%**	**31%**	**$4,041**
Young Adults	**68%**	**71%**	**$4,088**
Demos' calculations using 1989. 1992, 1995, 1998, and 2001 Survey of Consumer Finances			

B. Unfair and Abusive Industry Practices

As more households have turned to credit cards to deal with volatility in their incomes and adjust to rising prices, the practices of the credit card industry have further eroded the financial well-being of indebted households. As a result of several Supreme Court cases and legislative changes, the credit card industry is completely unregulated. We believe strongly that this needs to change and that the FRB could yield enormous influence in stimulating a debate about the purpose and need for better regulation.

Since the late 1970s, America's credit card industry has enjoyed a period of steady deregulation. Taking advantage of this deregulatory climate, the credit card industry ushered in a wave of unscrupulous and excessive practices in the 1990s—all aimed at keeping consumers in debt. These practices include increased fees and skyrocketing interest rates for minor infractions. These practices have paid off—credit card operations are among the most profitable in the banking industry. Revenue from penalty fees alone topped $7 billion in 2002. However, in the process of siphoning off billions of dollars from US consumers, the credit card industry makes a mockery of the consumer protection and disclosure provisions in the Truth in Lending Act.

Some of the practices which make the credit card industry so profitable include:

Relentless Credit Extension. Between 1993 and 2000, the industry more than tripled the amount of credit it offered to customers, from $777 billion to almost $3 trillion. The average cardholding household now has six credit cards with an average credit line of $3,500 on each—for a total of $21,000 in available credit. In many instances, the level of available credit far exceeds the minimum level of needed income to service that level of debt.

Lowering of Minimum Payment Requirements. The credit card industry has lowered the minimum monthly payment from 5 percent to only 2 or 3 percent. Lower minimum payment requirements make it easier for consumers to carry larger debt loads. Lower payments also keep debtors in debt for much longer periods of time, increasing the chances of collecting extra fees. With interest rates as high as 29 percent, many families who make minimum payments may find they may never pay off their balance in full or that it may take several decades. When interest rates are high and minimum payments are low, minimum payments are unable to make a dent in the credit card balance. As a result, the credit card balance will continue to rise.

Late Fees and Penalties. Late fees have become the fastest growing source of revenue for the industry, jumping from $1.7 billion in 1996 to $7.3 billion in 2001. Late fees now average between $29 and $39, and most cards have reduced the late payment grace period from 14 days to 0 days. In addition to charging late fees, the major card companies use the first late payment as an excuse to cancel low, introductory rates-often making a zero percent card jump to between 22 and 29 percent.

Payment Cut-Off Time and Date. In order to raise rates and charge penalty fees, the credit card industry routinely posts payments that are received on the due date as late payments. This is a result of setting a specific hour on the day the payment is due. In many instances the hour is set so early that under no circumstance would payment received on the due date be posted as on time. As a result of a run-of-the-mill tardy payment, most issuers now raise the cardholders' rate to the "default" rate despite the fact that the cardholder is not in default, but rather is late on their payment.

Universal Default. Card issuers now routinely check their cardholder's credit reports and will raise the interest rate on the card if there has been a change in the consumer's score. Known in the industry as "universal default," these policies are little more than preemptive penalties levied toward responsible debtors. For example, if a Bank One Visa cardholder is late on their MBNA MasterCard, Bank One will now raise the cardholder's interest rate—even if that cardholder has never missed a payment with them. Interest rate increases can also be triggered when a cardholder's profile has changed due to the addition of new loans, such as a mortgage, car loan or other type of credit.

Bait and Switch. The industry standard is to deceive and confuse consumers with the end result of charging higher interest rates and collecting penalty fees. Credit card solicitations with a certain set of terms are offered and, often, consumers are approved at a different, less favorable set of terms usually resulting in more expensive terms of credit.

Retroactive Application of Any Change in Terms. The practice of raising a cardholder's rate to a "default rate" for payments that arrive hours after a mail pick-up, or for activity with another creditor is made worse by the fact that the new higher rate is applied to the cardholder's existing balances. In addition, all credit card issuers reserve the right to change the terms of the card, including APRs, at any time. The change in terms are not restricted to purchases made after the change in terms, but rather are applied retroactively to the existing balances on the card. By applying the rate change to previous purchases, card companies are essentially changing the terms retroactively on consumers, and in essence, raising the price of every item or service purchased previously with the card. Take, for example, a cardholder who buys a new computer under the pretense that she will be paying back the price of the computer at the APR on her card at the time of purchase, which may be 9.99 percent. After one day-late payment on her account, the interest rate on her card is raised to 27.99 percent. As a result, this cardholder is now paying off the loan for her computer under drastically different terms than which she purchased the item. These rate changes, levied even on customers who are paying their bills in good faith, if perhaps not in perfect time, constitute an enormous and undue increase in the cost and length of debt repayment for revolvers.

In the face of rising costs for essential goods and services, many families have turned to credit cards as a socially acceptable solution for maintaining living standards during periods of income loss or stagnation. The credit card industry has responded to the increased financial vulnerability of many American households by further strapping customers with a high-cost combination of "gotcha" penalty interest rates and fees. In absence of stronger federal regulations or industry-driven reforms, the levels of debt accumulated by American households in the past decade may very well prove unsustainable on a number of fronts. Industry practices that make it harder for indebted households to pay down balances in reasonable amounts of time threaten the health of U.S. households, the health of our consumer-driven economy, and eventually, the health of the consumer lending industry itself.

Our specific comments for the TILA disclosures are addressed below. While strengthened disclosure rules are necessary, they are not sufficient to address the litany of abusive and deceptive practices that characterize the credit card industry. We urge the Board to recommend to Congress to make substantive changes to the laws regulating the issuance of open-ended credit.

II. Advance Notice to Proposed Rulemaking: Three Major Issues

As a result of deregulation of the credit card industry, the Truth in Lending Act (TILA) is the only protection consumers have from the unfair practices by the credit card industry. The full scope of TILA is to ensure full disclosure. However, the scope of abusive and unfair credit card industry practices goes beyond full disclosure. In the absence of federal regulation, TILA now stands alone in reining in one the most powerful and politically connected industries in the country.

A. Change in Terms

The change in terms provision in many credit card agreements is the tool used by the credit card industry to circumvent the spirit and effectiveness of the Truth in Lending Act. The full disclosure provisions are rendered useless if the terms of an agreement can be changed at any time for any purpose. **A unilateral change in terms in a credit contract should not be permitted at any time, for any reason.**

Question 26:
Is mailing a notice 15 days before the effective date of a change in interest rates adequate to provide timely notice to consumers?

Question 27:
How are account-holders alerted to increased interest rates due to consumers' default on this account or another credit account? Are existing disclosure rules for increases to interest rates and other finance charges adequate to enable consumers to make timely decisions about how to manage their accounts? If not, provide suggestions.

Regulation Z allows for changes in finance charges or the annual fee of an open-end plan with 15 days' advance notice. A unilateral change-in-terms in a credit card contract should not be permitted at any time, for any reason. Card companies should be held to the terms of the original contract, with no exceptions. Like many standard agreements, the following disclosure on a Bank One credit card solicitation contains the following language:

> "We reserve the right to change the terms (including APRs) at anytime for any reason, in addition to APR increases which may occur for failure to comply with the terms of your account."

As a result of the lop-sided contract between cardholders and card issuers, cardholders have very little negotiating or bargaining power with lenders. A consumer may believe they are signing a credit card contract for a set interest rate, only to find out a short time later their rate has been raised for no reason. What may seem like a fixed rate is really just the opposite. A credit card contract between the consumer and the credit card company is in fact a free pass for the credit card issuer to raise rates and fees without cause. Even "fixed" rates are not really "fixed" as the issuer is able to alter the rate or switch the rate to variable pricing at their discretion.

The current standard terms of credit agreement leave consumers at the mercy of capricious credit card issuers who are legally allowed to change the pricing and fees of the card at any time for any reason. The Board asks whether 15 days is sufficient time for a change-in-terms notice. The issue is not whether consumers need more time for a change-in-terms notice, but that change-in-terms in a credit card contract should not be permitted.

B. Minimum Disclosure Payments

Question 31:
Should the Board consider disclosures of the effects of making only the minimum payment? Should the Board require account-opening disclosures showing the total of payments when the credit plan is specifically established to finance purchase that are equal or nearly equal to the credit limit (assuming only minimum payments are made)?

Credit card companies have also lowered their minimum payment requirement from a standard 5 percent to only 2 or 3 percent of the outstanding balance. This makes it easier for consumers to carry more debt each month. It also ensures more interest income for the card companies, as consumers who pay only the minimum will revolve their balances over a longer period of time. Most consumers are unaware of how much interest and how long it will take to pay off their debt when only paying the minimum payment. **Full disclosure of the length of terms, amount of interest paid, and total amount paid if the minimum payment is made should be standard on all credit card statements. Full disclosure should be made in a Shumer-type box.**

Consumers should be informed in their monthly statement about the cost of only paying the minimum amount, as well as the length of time it would take to pay off balances of various sizes by making only the minimum payment. A sample table that could be printed on the front page of the credit card statement is provided below. For example, a balance of $5,000 would take 46 years to pay off, most consumers are not aware of the financial implications of only paying the minimum balance. (Table 4) Additionally, the minimum payment requirement should be raised to 5 percent of the outstanding balance for all new cardholders.

Table 4. Amount of time and interest payments for selected credit card balances and interest rates

Credit Card Balance	Annual Interest Rate	Years to Payoff Credit Card Debt	Interest Cost
$5,000	15%	32	$7,789
$5,000	18%	46	$13,931
$8,000	15%	37	$12,790
$8,000	18%	50	$22,805
$10,000	15%	39	$16,122
$10,000	18%	50	$28,524

Most credit cards assume a minimum payment of 2 percent of the balance or $10, whichever is higher.
Source: Demos' calculations

Question 32:
Is information about the amortization period for an account readily available to creditors based on current accounting systems, or would new systems need to be developed?

The technology exists and personalized information ***could*** be made available. Many financial institutions with credit card operations have personal finance calculators in place that provide information on a wide variety of transactions that calculate retirement plans, lines of credit, and home loans. The cost would be minimal to provide an online calculator to their credit card customers. For example, Bank of America has a financial tools section on their website which provides information on how interest rate changes will affect consumer balances. The calculator provides options to input starting balances, future monthly charges, future monthly payments, interest rates, and annual fees. The calculator also provides a graphs and amortization tables. A tool such as this one should be made available to all accountholders when their credit cards are accessed online. The Bank of America website below provides one example of a generic calculator.

http://www.bankofamerica.com/financialtools/index.cfm?view=planning&calcid=card02

Question 33:
Is there data on the percentage of consumers, credit cardholders in particular, that regularly or continually make only the minimum payments on open-end credit plans?

According to the Cambridge Credit Index, a monthly survey of 800 adults, 45% of cardholders are making only minimum or no payments on their outstanding credit card balances, up from 42% who did so in 2004.[4]

C. Credit of Payments

Question 51:
Should the Board issue a rule requiring creditors to credit payments as of the date they are received, regardless of the time?

As mentioned earlier, credit card companies set a specific time on the due date on which payments are due. As a result, the credit card industry routinely posts payments that are received on the due date as late payments. The purpose of this practice is to raise rates and charge penalty fees. Issuers will raise the cardholders' rate to the "default" rate despite the fact that the cardholders' payment arrived on the due date. In many instances the hour is set so early that almost under no circumstance would payment received on the due date be posted as on time. Demos recommends the Board take the following action: **The Board should issue a rule that requires payments received on the due date be credited as on time, regardless of the time received.**

III. Recommendations for Legislative Reform

Re-regulation of the credit card industry is essential to stemming the rise of debt among American households and to protect borrowers from abusive and capricious practices.

Deregulation of the industry began with a Supreme Court ruling in 1978. In *Marquette National Bank of Minneapolis v. First Omaha Service Corp* (hereafter *Marquette*) the Court ruled that Section 85 of the National Banking Act of 1864 allowed

[4] http://www.cambridgeconsumerindex.com/

a national bank to charge its credit card customers the highest interest rate permitted in the bank's home state—as opposed to the rate in the state where the customer resides.[5] As a result, regional and national banks moved their operations to more lender-friendly states, such as South Dakota and Delaware, where there were no usury ceilings on credit card interest rates. In domino-like fashion, states began loosening their own usury laws, limiting the chances for consumers to get a lower rate from a local or state bank.[6] Today, 29 states have no limit on credit card interest rates.[7]

As a result of *Marquette*, credit card companies that are located in states without usury laws and without interest rate caps—essentially all the major issuers—can charge any interest rate they wish, as long as they comply with consumer disclosure rules. The effect of this ruling had tremendous impact on the growth of the credit card industry and its profitability. Before *Marquette*, complying with 50 different state laws represented a high cost burden for the credit card companies. The *Marquette* decision allowed banks to nationalize credit card lending and take full advantage of the ease of centralized processing provided by the Visa and MasterCard system. As a result, credit cards, which were once the province of the wealthy and elite business class, quickly became part of mainstream American culture. Riskier borrowers—those on the lower end of the income distribution—were brought into the market, and lenders were able to charge higher interest rates to compensate for the increased risk.[8]

The rise in credit card debt during the 80s and 90s reveals how quickly this transformation occurred: In 1999 dollars, from 1980 to the end of 1999, credit card debt grew from $111 billion to nearly $600 billion.[9]

Credit card interest rates began to soar in the high-inflation post-*Marquette* environment, reaching averages of 18 percent, and have remained relatively high in comparison to drops in the federal funds rate.[10] Several economists have remarked on the reasons why consumers continue to pay, and card companies continue to charge, exceptionally high interest rates. Some point to the high consumer transaction costs involved in switching, while others point to a lack of competition in the credit card marketplace.[11] Whatever the reason, credit card companies did not lower their rates when

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[5] Vincent D. Rougeau, "Rediscovering Usury: An Argument for Legal Controls on Credit Card Interest Rates," *University of Colorado Law Review*, Winter 1996.
[6] Ibid.
[7] Lucy Lazarony. "States with Credit Card Caps." Bankrate.com, March 20, 2002. <www.bankrate.com/brm/news/cc/20020320b.asp>
[8] David A. Moss and Johnson A. Gibbs, "The Rise of Consumer Bankruptcy: Evolution, Revolution or Both?," 1999 National Conference of Bankruptcy Judges, p 13.
[9] Robert D. Manning, *Credit Card Nation: The Consequences of America's Addiction to Credit,* (Basic Books: New York), 2000, pp 12-13. Figures adjusted to 1999 dollars.
[10] See *Federal Deposit Insurance Corporation (FDIC)*: Bank Trends – The Effect of Consumer Interest Rate Deregulation on Credit Card Volumes, Charge-Offs, and the Personal Bankruptcy Rate. *http://www.fdic.gov/bank/analytical/bank/bt_9805.html*. May 1998, p 8; David A. Moss and Johnson A. Gibbs, "The Rise of Consumer Bankruptcy: Evolution, Revolution or Both?," 1999 National Conference of Bankruptcy Judges, p 13.
[11] See Vincent D. Rougeau, "Rediscovering Usury: An Argument for Legal Controls on Credit Card Interest Rates," *University of Colorado Law Review*, Winter 1996.

inflation slowed and national interest rates came down. As a result, the card companies' "spread"—the amount charged above what it costs them to loan the funds—has remained consistently high, consistently at or above 10 percent over the last 15 years.

This trend continued in the 1990s, even as the federal funds rate and the prime rate dropped to historic lows. The Federal Reserve lowered rates eleven times in 2001, from 6.24 percent to 3.88 percent.[12] But these savings didn't get passed on to consumers: during the same period, credit card rates declined only slightly from 15.71 percent to 14.89 percent.[13]

In the mid-1990s, further deregulation of the credit card industry again contributed to the increasing costs of credit for consumers. In 1996, the Supreme Court ruled in *Smiley vs. Citibank* that fees could be defined as "interest" for the purposes of regulation. As such, under the rules established by *Marquette*, the laws regulating fees were now to be determined by the state laws in which the bank was located. Prior to the ruling, the card companies were bound by the state laws of the customers' residence.

After *Smiley*, banks began to aggressively levy penalty fees, particularly late payment fees, which grew from $14 in 1996 to over $32 in 2004.[14] Over-limit fees have similarly jumped from $14 in 1996 to over $30 in 2004.[15]

These fees are no longer primarily aimed at penalizing irresponsible debtors. Rather, they have become a major new revenue source for the industry, while debtors who are paying in good faith are being hit with excessive fees and penalty interest rates. Since *Smiley* case, penalty fee revenue has increased nearly nine-fold from $1.7 billion in 1996 to $14.8 billion in 2004.[16] If you add cash advance fees, and annual fees, the income from just these three fees reached $24.4 billion in 2004.[17] Fee income topped $30 billion if balance transfer fees, foreign exchange, and other fees were added to this total.[18] Concurrently, card issuer profits, though declining somewhat between 1995 to 1998, have steadily increased between 1999 and 2004. These profits rose from 3.1% in 1999 to 4.5% in 2004.[19]

Interest income has surged as a result of the significant percentage of accountholders who revolve credit card balances each month. Around 40 percent of

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[12] Federal Reserve, Federal Funds Rate, Historical Data. Released April 28, 2003. http://www.federalreserve.gov/releases/h15/data/afedfund.txt
[13] US Census Bureau, *Statistical Abstract of the United States: 2002*, p 728.
[14] Cardweb, *Late Fees*, Cardweb.com (January 28, 2005, available at www.cardweb.com/cardtrak/news/2005/january/28a.html.
[15] Cardweb, *Overlimit Fees*, Cardweb.com (February 2, 2005), available at www.cardweb.com/cardtrak/news/2005/february/2a.html.
[16] Cardweb, *Fee Party*, Cardweb.com (January 13, 2005), available at www.cardweb.com/cardtrak/news/2005/january/13a.html.
[17] *Id.*
[18] *Id.* If merchant-paid fees are combined with consumer-paid fees, the total fee income is estimated at $50.8 billion.
[19] Cardweb, *Card Profits 04*, Cardweb.com (Jan. 24, 2005), available at www.cardweb.com/cardtrak.news/2005/January/24a.html (visited March 3, 2005).

accountholders who pay off their entire balances each month, or convenience users, pay no interest at all—essentially receiving an interest fee loan. In 2000, 57 percent of accountholders paid finance charges, down from 71 percent in 1991. Thus, revolvers bear the brunt of the cost, through high interest payments, of managing and administering credit card accounts.

Re-regulation of the credit industry is necessary to restore responsible credit practices and fair lending terms for borrowers. Demos suggests new federal legislation to ensure integrity of the credit card market:

- Require card companies to provide a reasonable late-payment grace period to protect responsible debtors from being unduly penalized by a run-of-the mill tardy payment; limit rate increases to 10 percent above the cardmember's original rate.

- Ensure card companies are accountable to the original contract with the cardmember for all purchases up to any initiated change in terms. Any change to the annual percentage rate should be limited to future activity on the card.

- Establish a floating interest rate ceiling that is indexed to a federal interest rate. A floating limit would ensure the continued profitability of the credit industry during periods of high inflation when interest rates climb. Likewise, it would ensure savings are passed on to customers when national interest rates decline.

- Require disclosure of the full costs of only paying the minimum payments, including the number of years and total dollars it will take to pay off the debt. Raise the minimum payment requirement to 5 percent of the total balance for new cardholders to curtail excessive debt loads and interest payments.

- Require credit cards issued to individuals under 21 to have a co-signer, unless they can prove they have independent means of support.