Subject: Regulation AA

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Comments:

My comments are based on previous experience consulting with banks and research regarding credit card practices that has been submitted to the Senate Subcommittee on Investigations, which is looking into abusive credit card practices. There has been a signifant trend to shorten the billing cycle. This is the elapsed time between when a bill is sent and payment is received. The billing cycle used to be 25 days or longer. It has been shortened to 20 days by some banks. This is very beneficial to banks for two reasons: 1) The banks get their payments back faster which gives them more funds to invest sooner, which increases profitability. For example, a reduction of 5 days per month equates to 60 days per year. 60 divided by 365 equals 16%. Thus, 16% of the estimated $900 billion held by card holders, or about $144 billion, would be available sooner for reinvestment. Banks encourage even faster payments. For example, in its instructions to card holders Bank of America suggests that payments be sent in immediately upon receipt of a bill to avoid late payment fees. 2) A shortened billing cycle snares more card holders with late fees, which now total an estimated $18 billion per year industry-wide. Banks routinely advise card holders to mail in payments 7 days before the due date. Applying the same standard to the time required to receive a bill equates to 14 days mail time. With a 20 day billing cycle time this allows a card holder only 6 days to pay a bill in order to avoid a late fee. With such a short window of time available many more payments will be late and late fees will increase. With a billing cycle of 25 days the window would be 11 days, which is much fairer. I believe that a minimum of 25 days should be established as a rule for all banks to prevent excessive entrapment of card holders into the payment of late fees. The focus only on late fees misses the larger issue, which is how banks can significantly increase their take. When a payment is late a bank can increase the interest rate charged to the card holder, even up to a default rate of 28%. This is far more lucrative than simply charging a late fee. Also, if a customer misses the mail deadline and desires to pay by telephone to avoid a late fee, there is a cost for the telephone payment of $14.95, so the bank collects a fee either way. A rule requiring a 25 day billing cycle would reduce these costs as well as late fees. In addition, other onerous rules exist. Chase maintains that a card holder owes a payment by the due date, even if the card holder did not receive a bill, which happens more often than might be expected for many reasons. Without a bill the card holder does not know how much is owed, whether the charges are valid, or the due date of a payment. This latter item is important. Bank of America advises its customers to be sure to check the due date because the allowed time for payment can change from bill to bill. Without a bill this instruction is moot. Banks vary in their policies regarding non-receipt of a bill. Chase is adamant that a payment is still required by the due date. Bank of America is very open-minded and willing to forego a late fee in this circumstance. Citi is in between with a policy that considers each situation based on the circumstances. Other banks vary. Some sort of rule or standard is needed to protect cardholders from non-receipt of a bill or receipt so late that a payment can not be made on time. I could go on and on. My belief is that you should set broad industry standards, perhaps a set of best practices, that can be used to guide the industry and become a basis for evaluating their behavior. The industry is so large and affects so many that its drive for ever increasing profits is a real danger to society. As a first step, you must assure that the billing cycle, which has an impact far beyond simply late fees, is fair and reasonable. A minimum of 25 days is needed.