Subject:	Regulation AA

Date:	Aug 28, 2008
Proposal:	Regulation AA - Unfair or Deceptive Acts or Practices
Document ID:	R-1314
Document Version:	1
Release Date:	05/02/2008
Name:	Josh McCormick
Affiliation:	
Category of Affiliation:	Other
Address:	3424 East 41st Street
City:	Tulsa
State:	OK
Country:	UNITED STATES
Zip:	74135
PostalCode:	

Comments:

Board of Governors: As a consumer, overall, I strongly support the seven provisions related to consumer credit cards. #1: First, the 21 day period between a statement being mailed and the due date for a payment should be considered a bare minimum. Sure, a payment is due even if a statement is not received. But in the real world, things work differently. People use their statements as a reminder to pay a bill. And they need a buffer between when a bill comes in, and when that bill is due. Why? Usually: for another pay (paycheck) cycle to go through. You may say, "this is crazy, don't these people know when their bills are do?" I can say quite emphatically, "no." I can't apply an easy to remember rule like, "I pay my Discover Card every other payday" because the credit card payment cycles (perhaps 30 days) don't match my payday cycles (perhaps every two weeks, or twice a month). From the perspective of someone who is paying a credit card bill, the payments can hit just after a payday (great), a week later, or just a day or two before the next payday (unfortunate). Because the timing (as an example, 30 days) does not match anything else, if I'm paid bi-monthly (1st and 15th), there are months where I have to make a payment from each paycheck in order to keep up with the date shifting. Nevermind that some credit card companies like to modify the due date for no apparent reason, or that due dates are artificially shorter when they fall on days that the post office does not deliver mail. (I see you're addressing those particular items as well. Good!) Some of these, in themselves, are deceptive practices. But back to the point, consumers need as wide as a buffer as you'll require between a statement and the payment due date. If making the buffer 21 days is too big, then extending the late-past-due date is also good. Of course, don't think that some credit card companies won't take the most minimal interpretation of your requirement as possible. They could mail a statement 21 days before the due date... by dropping it off at a post office at 11:30pm. And then creatively mailing those statements from a post office that is the furthest distance from the consumer as possible. (Mailing East Coast customers from the West Coast, and mailing West Coast customers from the East Coast, for example.) I wished you would have added further regulation to prevent the sending of statements via the longest route, and requiring consumers to send their payments back, also, via the longest route. You specifically requested comment on adopting a rule to treat, upon request, a payment mailed before the due date as no longer late, and what proof may be required. I would submit a category of payment here, which involves fairly concrete proof. A electric bill payment service, such as Paytrust (by Intuit), which serves as a third party who either mails a physical payment, or enacts an electronic funds transfer, could provide a trusted means of proof that a payment has been made before the due date. #2: Wow. I've had a great experience with this one (different aprs on different balances on the same account, and payment allocation towards the balances). I'll withhold the name of the credit card company involved unless specifically requested, but they are extremely well known. "Balance transfer! 7.99% fixed! Transfer all your existing balances over and get a great rate!" It's a trap. And a great one. Here's how it works. Let's say that you request to transfer a total of $8,000 from other credit cards. You get your credit card with an $8k transfer balance, and an additional $8k available for credit card purchases, also at 7.99%. Wow. Great deal, huh? Well, it actually stays that way. Until you put a good enough balance on your credit purchase balance. Let's say you charged $3,000. What happens next? Surprise! That 7.99% for credit card purchases wasn't fixed. You're now on the credit card treadmill. 9%... 10%... 12%... 14%... 16%... and so on. Actually, in my case, the interest rate regularly increased by a regular amount for each and every statement once they activated the treadmill. "Hey, no problem, I'll just pay that $3,000 off." You can't. You are trapped. In order to get rid of the $3,000 treadmill dollars, you have to first pay off $8,000 of the low interest rate balance, for a total of $11,000. You're stuck, and screwed, and they know it. The interest rate treadmill on the $3,000 continues to rise and rise. Yes, paying far beyond the minimum did not affect the credit balance, only the transfer balance. Welcome to the "low interest rate balance transfer trap." And this is from an extremely well known credit card company. I read through some of the form letters you received from banks. Claims of reducing access to credit, and resulting in higher interest rates for consumers. Hey, if that is the alternative to a calculated trap like the one described above (one that I fell into, for a time), it is a fair price to pay. I am far more in favor of a type of system that makes the worst interest balance paid first. I just hope that there are enough safeguards built in so that we don't have the banks getting creative with surprise fees that aren't tied directly to interest rates, where they can charge those on accounts that aren't paid first. Frankly, permitting customers to instruct the allocation of amounts in excess of the minimum is probably the only way to keep the credit community from innovating new and creative ways of stealing more money from consumers, while providing no real value. Again, as a consumer, the cost to institutions (and therefore customers) as well as any impact on the availability of credit would be worth it to so many of us. #3: Prohibiting institutions from increasing the APR on an outstanding balance is one of the greatest reforms I look forward to. I'm shocked and delighted to see such a proposed reform. Here's an example of my experience with this: I had a very well known credit card company decide, for no apparent reason. (I have an excellent credit rating, and no late payments on my credit report, and substantial balance changes were made any time in recent history.) They sent me a single letter informing me that they were going to change my interest rate from 10% to 24%. But, I could opt-out of this change by sending them a letter denying the change, and my account would continue to remain open and on the current terms that it is today. If that isn't predatory behavior, I'm not sure what is. Apparently, they decided that they could send a number of these letters out, and they know that despite it being an overwhelmingly negative proposal, not everyone would catch and deny the change. No value provided, and instant profit. I opted out. My account remains open to this day, usable, and terms substantially unchanged. It is unfortunate for all the people who did not catch that single notice and respond in the prescribed method within the window provided. (That is, they didn't jump through an arbitrary hoop that the credit card company manufactured, so it gave them the right to squeeze those that inevitably would miss the hoop.) They wanted a letter, and they wanted it sent to an address that was different than normal, and with specific pieces of information on that letter. Opt-out is not an appropriate means of protecting customers. (Perhaps even more so than the reason just given, since they can even go as far as asking you to opt-out with every statement.) But more directly to the proposal itself, this just makes sense. "You know that $1,000 you borrowed from me at 12% interest? Well, now it is 18% interest. Enjoy!" (I'm just unclear if this regular affects universal default as being able to invoke a penalty rate.) #4: Over the limit fees on amounts not actually charged? Seems silly. Nice regulation. #5: I believe that two-cycle billing is also deceptive practice to anyone who isn't involved in finance. Despite its widespread adoption, it isn't a mechanism that consumers have been begging for. In fact, it confuses many, and hides an artificial interest rate from consumers. #6: I don't have a lot of personal experience with this, but I know people who have, and I agree with the regulation. And I have to laugh when I read one of the form letters you received from a banking community perspective. "The proposed rule's arbitrary fee limits would severely reduce the availability of credit for the 80 million Americans whose credit rating are below prime." Severely reduce the availability of credit? Even with that proposed change, I hardly doubt that the flow of credit is going to stop for people who are willing to pay 21% interest plus additional fees for a credit balance against 100% secured capital that the consumer had to deposit. Even THAT is outrageous. Where is the risk that requires 21% interest on an account that is 100% backed by CASH on deposit with the very lender? And even then, they still want to be able to eat over 25% of the deposit in artificial fees. Low-income / poor credit consumers will be helped by this requirement far more than they are theoretically hurt by it. There is no shortage of lenders who are willing to lend on even these outrageously generous terms. I would also argue that such a fee-limit rule should hold true for the life of the account, and not just the first year. You know what will happen, right? "Sign up now, and we'll waive half of the yearly maintenance cost for the first year!" And "two year account minimum required." You get the idea. Can you not expect them to be innovating in creating new and exciting ways of extracting fees from consumers? #7: I disagree with the proposed regulation of disclosing factors in receiving the lowest APR, highest credit limit, only in that it is too weak. The factors will end up being described in nebulous and non-discrete terms, such as, "availability of 12% interest is based upon credit history, existing credit portfolio, and other data provided by third party sources." Thanks for your time. Out of all of these, I'm most excited about preventing non-penalty interest rate changes on existing balances, and handling payments for multiple balances on the same account. I also applaud the fee reduction on prepaid accounts, and attempts to reform the statement dates and due dates.