Subject: Truth in Lending - Version 2

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The Fed's New Credit Card Proposals – Do They Go Far Enough? by http://www.NativeStar.org The Federal Reserve Board has proposed new rules to prohibit unfair practices regarding credit cards and overdrafts. Without question, these rules are a great move forward for the consumer. If implemented, they will save consumers from surprise rate increases on their existing credit card balances. They will make it fairer and easier to pay credit card bills on time. The rules will keep a credit card company from using confusing methods that unfairly maximize interest charges. Federal Reserve Board Chairman Ben S. Bernanke comments, "Greater clarity in credit disclosures allows consumers to make more-informed credit decisions and enhances competition among credit card issuers." But do these rules go far enough? In our opinion, no. There are still serious gaps in credit card policies that result in exorbitant, usury rates for the consumer. Specifically, there are two areas that are left uncovered: unusually high fees and extraordinary interest rate increases for late or missed payments. Fees for late payments, bounced checks, etc, have trended upward in recent years. A charge of $39 or more for a late payment is not unusual. Consumer groups have long argued that the true cost to a bank for a late payment or a bounced check is only a few dollars. Banks disagree, but the fact is that these fees and penalties have become a large source of revenue for banks. If you want to see the true cost of a late payment, see our article at http://www.nativestar.org/index.php?pr=14CCGuide, which documents how a single bounced check to a credit card company cost $126 in fees. Keep in mind that we are not talking about a series of checks bouncing. The $126 in fees was for one single check bouncing. To put that into proper banking language that anyone can understand, "WOW!" Secondly, it is understandable that a bank might charge a penalty interest rate for missed payments. After all, missed payments can indicate a possibility of a credit risk or a default on the balance. But what rate is reasonable? We have seen credit card terms stating that you will have penalty interest rates as high as 34.99% for missed payments. This is a rate that would have been considered usury only 50 years ago. At what point do we say there must be a cap on these fees and penalties? Does it really cost the banks this much or are they merely profiting off of the mistakes of consumers. Certainly it should be possible to determine a fairer rate that will take into account credit risk without making an undue burden on the consumer. One thing that is important to remember is that these penalty fees and rates are not really competitive. Yes, it is true that you will see them when you apply for a credit card. But the banks know the psychology of the consumer: "It won’t be me, I never make late payments, I never bounce a check, so it is not my concern." You are not concerned about these fees, because it is human nature to think that it will not happen to you. This is someone else’s problem. There are other things that you take into consideration when you compare credit cards, but penalty assessments are only a minor issue, if an issue at all. We also must keep in mind that consumers really don't take take the time to read and analyze all the terms and conditions. You can tell the consumers that they must, that this is their legal agreement with the bank, but let us face reality. A large percentage of consumers, perhaps a majority do not take the time to read all the fine print. This means that their must be regulations. People assume that the government has set fair maximum limits for penalties and fees. Then they are shocked when they make a mistake and are hit with these extraordinary fees. One article mentioned that banks are relying on these penalties as a source of revenue because the credit cards have become so competitive that banks need to find new profit centers. All right, but here is our solution: Put a cap on penalty fees and interest rates that is in line with the true cost to the banks for late payments, bounced checks, etc. All banks will be making the same revenue from penalty assessments, essentially just enough to cover their costs. By establishing a set cap for all banks, we will create a level playing field, wherein all banks can compete equally. http://www.NativeStar.org