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EDITORIAL

Plastic Card Tricks

Americans are struggling with a very rocky economy while they are also holding almost \$1 trillion in credit card debt. In most cases, those cards provide a little flexibility with the monthly bills. But an increasing number of people are defaulting because of the “tricks and traps” — soaring interest rates and hidden fees — in the credit card business.

Before more Americans get in so deep that they cannot dig out, Washington needs to change the way these companies do business to ensure that consumers are treated fairly.

The stories about deceptive practices are harrowing. At a recent news briefing in Washington, a Chicago man told about what happened when he charged a \$12,000 home repair bill in 2000 on a card with an introductory interest rate of 4.25 percent. Despite his steady, on-time payments, the rate is now nearly 25 percent. And despite paying at least \$15,360, he said that he had only paid off about \$800 of his original debt.

The Federal Reserve is focused mainly on making it easier for consumers to understand credit card contracts — some go as high as 30 pages of nearly unreadable fine print. Clarity, however, is not enough. One bank contract stated baldly: “We reserve the right to change the terms at any time for any reason.”

Congress needs to address numerous unfair practices, including interest rates that skyrocket for no apparent reason and due dates that suddenly shift — forward — so that an unwary consumer pays late. Late fees are a big profit center in some banks. Some raise interest rates when consumers get close to their credit limits. In other cases, a late payment on one company’s card raises the rates on other cards in your wallet.

Americans deserve better. Senator Carl Levin, Democrat of Michigan, has been pushing hard for more consumer protections. Representative Carolyn Maloney, Democrat of New York, has put together an excellent first step with a cardholder’s bill of rights. It would require such reasonable changes as a ban on collection of interest on amounts already paid. It would require that cardholders get timely notices of changes in their rates and be able to cancel their cards if the rates suddenly skyrocket — and pay off the balances at the old rates.

Elizabeth Warren, a professor at Harvard Law School, has an especially promising idea: a Financial Product Safety Commission to regulate the industry. Today’s credit card users could use the protection.