Summary of the Credit Cardholders' Bill of Rights

H.R. 5244, the "Credit Cardholders' Bill of Rights," provides crucial protections against unfair, but unfortunately common, credit card practices.

Ending Unfair, Arbitrary Interest Rate Increases

Problem: Credit card issuers can arbitrarily raise interest rates, even on customers who pay on time and don't go over their credit limit. Fine print in most card agreements allows rate increases for reasons completely unrelated to a customer's use of the card – such as a decline in their credit score, using most of their credit line, default on a different debt, or even "general economic conditions." These increases apply to existing balances as well as future purchases, driving up debt burdens and making it much harder for consumers to pay their bills. The Federal Reserve has concluded that allowing companies to raise rates on existing balances – retroactively changing the deal – is unfair and deceptive, anticompetitive, and stops the forces of the free market from working to reduce rates.

Solution:

- The bill prevents card companies from unfairly increasing interest rates on existing card balances – retroactive increases are permitted only if a cardholder is more than 30 days late, if a promotional rate expires, or if the rate adjusts as part of a variable rate.
- If a consumer becomes more risky, a card company can charge them more for new credit or reduce their line of credit, but the consumer can pay off the old balance at the previous rate.
- The bill also requires card companies to give 45 days notice of *all* interest rate increases so consumers can pay off their balances and shop for a better deal.

Giving Consumers Control Over Credit Limits, Ending Excessive "Over-the-Limit" Fees

Problem: Most card companies currently don't give cardholders the option of setting real limits on their own accounts. Instead, the companies decide what a cardholders' limits should be, allow them to exceed those limits, then hit them with fees and/or rate increases for doing so. Most card companies penalize cardholders who spend beyond their credit ceiling by hitting them repeatedly with "over-the-limit" fees averaging $39 each.

Solution:

- Requires companies to let consumers set their own fixed credit limit.
- Prevents companies from charging "over-the-limit" fees when a cardholder has set a limit, or when a preauthorized credit "hold" pushes a consumer over the limit.
- Limits (to 3) the number of over-the-limit fees companies can charge for the same transaction – some issuers now charge virtually unlimited fees for a single limit violation.

Ending Unfair Penalties for Cardholders Who Pay on Time

Problem: "Double-cycle billing" is a confusing practice some companies employ to unfairly boost interest charges. If a consumer does not pay off a bill in full in a given cycle, the company charges interest on the *entire balance* from the previous cycle, even if the cardholder paid part of it off. Card companies can also slap fees or charge interest on residual interest-only balances of cardholders who pay in full and on time. Cardholders usually don't realize this remaining interest exists and are surprised when they get a hefty late fee or rate increase for not paying it off.

Solution:

- Ends unfair "double cycle" billing – card companies can't charge interest on debt consumers have already paid on time.
- If a cardholder pays on time and in full, the bill prevents card companies from piling additional fees on balances consisting solely of left-over interest.

Requiring Fair Allocation of Consumer Payments

Problem: Card companies benefit – and cardholders lose – when cardholders pay off lower-rate balances and let higher-rate balances accrue more interest. Currently most companies allocate payments to lower-rate balances first, and consumers have little say in the matter. The Federal Reserve concluded it was unfair and deceptive to prevent cardholders from paying off any of their high rate balances .

Solution:

- The bill generally requires payments to be allocated proportionally to balances that have different rates, so consumers have a chance to pay down their high-rate debt.

Protecting Cardholders from Due Date Gimmicks

Problem: Currently, card companies are allowed to mail billing statements 14 days before the due date. Mail delays and other problems can leave cardholders with less than a week to get their payment back to their card company, increasing the likelihood of a payment being declared "late" and being hit with a hefty late fee and a retroactive rate increase.

Solution:

- The bill requires card companies to mail billing statements 25 calendar days before the due date (up from the current 14 days), and to credit as "on time" payments made before 5 p.m. local time on the due date.

Stopping Companies from Using Misleading Terms and Damaging Consumers' Credit Ratings

Card companies can currently define the terms "fixed rate" and "prime rate" pretty much as they wish. This can lead to confusion among cardholders and prevents fair competition. In addition, some card companies report cards to credit bureaus before consumers have formally accepted the cards, which can adversely affect their credit reports.

Solution:

- Establishes standard definitions of terms like "fixed rate" and "prime rate" so companies can't mislead or deceive consumers in marketing and advertising.
- Gives consumers who are pre-approved for a card the right to reject that card prior to activation without negatively affecting their credit scores.

Protecting Vulnerable Consumers From High-Fee Subprime Credit Cards.

Problem: Subprime credit cards are marketed to people with poor credit histories and who may have trouble getting a regular credit card. In addition to high interest rates, these cards have hefty fixed fees that often exceed 25 percent of the available credit. Many companies

now charge those fees to the card itself, so that before the consumer even makes a purchase, they are in debt and have consumed a large portion of their credit line.

Solution:

- The bill prohibits issuers of subprime cards (where total yearly fixed fees exceed 25 percent of the credit limit) from charging those fees to the card itself.

Protecting Vulnerable Minors

Problem: Card companies increasingly market cards to minors who are ill-prepared to use them, which can place these new consumers in a downward debt spiral before they're even old enough to vote.

Solution:

- The bill prohibits card companies from knowingly issuing cards to individuals under 18 who are not emancipated minors.