United States Senate
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
Committee on Homeland Security and Governmental Affairs

Carl Levin, Chairman
Norm Coleman, Ranking Minority Member

EMBARGOED UNTIL
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SENATE CREDIT CARD HEARING TO FOCUS ON UNFAIR INTEREST RATE INCREASES

WASHINGTON – Senators Carl Levin, D-Mich., and Norm Coleman, R-Minn., Chairman and Ranking Minority Member of the U.S. Senate's Permanent Subcommittee on Investigations, will hold a hearing on Tuesday, December 4, 2007, to examine the credit card industry's practice of imposing interest rate increases on cardholders who pay their bills on time in compliance with their credit card agreements.

"Credit card companies go too far when they hike the interest rates of consumers who are faithfully paying their credit card bills, just to squeeze more finance charges from them," said Levin. "Some credit card companies are foisting interest rates as high as 25% or 30% on responsible consumers, claiming they have become greater credit risks even when those same consumers haven't missed paying a bill in years. And credit card companies reach back and apply the higher interest rate retroactively to a consumer's existing credit card debt, forcing the consumer to pay more even though they paid their past credit card bills on time. Right now, credit card companies are the only lenders allowed to retroactively change the interest rate on a consumer loan where the consumer has met their borrowing obligations. This unfair credit card practice needs to stop."

"Without a doubt, many Americans are frustrated by certain credit card practices, often finding themselves saddled with interest rates that skyrocket seemingly out of the blue," said Coleman. "At our March hearing, I challenged the credit card industry to address these concerns so that the federal government wouldn't have to. To that end, some credit card companies have taken the initiative to correct the inadequacies of their disclosures and proposed new, clearer formats to better provide truly effective notices. I applaud their efforts, but more needs to be done to make policies transparent and predictable for consumers. These reforms will require the industry to focus on clear, user-friendly disclosures and common-sense, straight-forward alerts when an issuer wants to change a card's terms. At this hearing, I will urge industry experts to develop new solutions to create a more consumer-friendly lending environment in the future."

The hearing is the second in a series of Subcommittee hearings into unfair credit card practices. The Subcommittee's first hearing in March examined industry practices that collect interest on credit card debt that is paid on time; impose steep and sometimes duplicative late, over-the-limit, or other fees on consumers; apply consumer payments first to the debt with the least expensive interest charges instead of those with the most expensive charges; and impose substantial penalty interest rates that can exceed 30%.

The upcoming December hearing will examine practices related to imposing interest rate increases on cardholders who have complied with their credit card obligations, in particular the industry-wide practice of applying higher interest rates to existing credit card debt.

The hearing is the result of a Subcommittee investigation into interest rate practices at the five major credit card issuers who handle 80% of U.S. credit cards. This investigation found that two of the issuers, Bank of America and Discover, increase the interest rates of cardholders whose "credit scores" have dropped, on the ground that these consumers pose a greater credit risk, even if they have a history of timely payments to the company. The investigation learned that another major credit card issuer, Capital One, on two occasions in 2007, increased the interest rates of consumers who paid their bills on time, not because of lower credit scores, but because the company had decided to pass on borrowing costs to its cardholders.

The two remaining major issuers, Citi Cards and Chase, have recently discontinued the practice of imposing interest rate increases on cardholders who meet their credit card obligations. Citi announced its policy change at the Subcommittee's March hearing; Chase announced on November 19, 2007, while their interest rate policies and practices were being examined by the Subcommittee, that it will discontinue by March 2008 the practice of increasing cardholders' interest rates due to credit score drops.

"Some contend credit card companies are repricing cardholders based on objective criteria," said Levin, "but the truth is there is a lot of arbitrariness in how interest rates are set. We've seen a consumer whose credit card was assigned four different interest rates over the same year, going from 15% to 19%, 27%, and then 6%, for no discernable reason. Another consumer with four cards from the same credit card company had four different interest rates, 8%, 14%, 19%, and 27%, even though she presumably posed the same credit risk on each. Those interest rates are all over the map. Consumers who play by the rules and pay their credit card bills on time shouldn't get hit with interest rates of 20, 25, or 30%; credit card companies who impose those high rates are taking unfair advantage of responsible consumers."

In May, Levin and Senator Claire McCaskill, D-Mo., introduced S. 1395, the Stop Unfair Practices in Credit Cards Act, which would stop credit card interest rate increases except in four circumstances: (1) after the lapse of an introductory interest rate; (2) pursuant to a variable interest rate; (3) pursuant to the application of a previously disclosed penalty interest rate after a cardholder violates the credit card agreement; and (4) where the cardholder agrees to the increase at the time it is proposed. The bill would also prohibit the application of higher interest rates to existing credit card debt. Instead, a higher interest rate could be applied only to credit card debt incurred after the increase took effect. S. 1395 is also cosponsored by Senators Leahy, Durbin, Bingaman, Cantwell, Whitehouse, and Kohl.

Case Histories. The Subcommittee will examine eight case histories at the hearing. The consumers in the first three case histories will testify, along with three major credit card issuers, Bank of America, Capital One, and Discover.

(1) **Janet Hard of Freeland, Michigan** has had a Discover credit card for many years. In 2006, Discover increased her interest rate from 18% to 24%. Discover increased the rate, because Ms. Hard's FICO credit score had dropped, even though she had always made her payments to Discover on time and paid at least the minimum amount due. Discover applied the 24% rate to her existing credit card debt which was then about

$8,300, increasing her finance charges. A year later, Discover lowered the rate to 21%. Over the last twelve months, despite making steady payments totaling $2,400 and keeping new purchases on her card to less than $100, the higher interest rates meant that Ms. Hard was able to reduce her principal debt by only $350.

(2) **Millard Glasshof of Milwaukee, Wisconsin** is a senior citizen living on a fixed income. For years he made a $119 monthly payment to Chase to pay off a credit card debt that is now about $4,800. In December 2006, Chase increased his interest rate from 15% to 19% and then in February 2007, to 27%. Application of the 27% rate to Mr. Glasshof's existing debt meant that, out of his $119 payment, about $114 went to pay finance charges and only $5 went to reducing his principal debt. He was also assessed multiple over-limit fees. Over the last twelve months, Mr. Glasshof made payments to Chase totaling $1,300, but his $4,800 debt did not decline at all. After the Subcommittee inquired about his account, Chase reduced his interest rate to 6%. By then, however, Mr. Glasshof had taken out a personal loan to pay off his Chase card and close the account.

(3) **Bonnie Rushing of Naples, Florida** has two Bank of America cards, one of which is affiliated with the American Automobile Association ("AAA"). Both cards had interest rates of about 8%. In April 2007, despite her history of timely payments, Bank of America nearly tripled the interest rate on her AAA card from 8% to 23%. It increased the rate, because Ms. Rushing's FICO score had dropped. She speculates that her score dropped after she opened Macy's and J. Jill credit cards to obtain discounts on initial purchases. Ms. Rushing told Bank of America that she had not received notice of the rate increase and wanted to opt out, but bank personnel told her she had missed the opt out deadline and pressed her to accept a higher interest rate. She complained to the Florida Attorney General, the Subcommittee, and AAA, and closed her account. After two months, Bank of America restored the 8% rate on her closed account.

(4) **Gayle Corbett of Seattle, Washington**, over a period of less than twelve months in 2007, was subjected to three separate interest rate increases on her Bank of America, Citi Card, and Capital One credit cards. Bank of America and Citi increased her rate, because her FICO score had dropped. (Citi later discontinued this policy.) Capital One increased her rate, not due to her credit score, but as part of a larger effort to pass on increased borrowing costs to its cardholders. Ms. Corbett was able to convince each issuer to partially or fully retract its rate increase. Her interest rates on the three cards are now 10%, 19%, and 15%. She told the Subcommittee that contesting these three rate increases, none of which were her fault and all of which threatened her ability to repay her debts, had left her exhausted and worried about future rate increases.

(5) **Agnes Holmes of Montgomery, Alabama** is a loyal Chase customer with two Chase credit cards. In 2007, despite her history of on-time payments, Chase increased the interest rate on one of her cards from 19% to 30%. Chase attributed the increase to a drop in her credit score, but Ms. Holmes employs a service that tracks her credit reports to prevent identity theft and provides her credit score on a quarterly basis; she provided materials showing that, during the period in question, her credit score had remained at or above 700. After the Subcommittee inquired about her account, Chase reduced her rate to 13% and refunded the excess finance charges.

(6) **Linda Fox of Circleville, Ohio** has had a Capital One credit card for more than ten years. In April 2007, Capital One increased her interest rate from 8% to 13%, after a decision to pass on increased borrowing costs to its cardholders. Capital One's automated system had selected accounts which had not had an interest rate increase in three years and had what the system deemed a "below market" interest rate. Ms. Fox's account was one of many selected for an increase, which was then applied to her existing credit card debt. In November, after a Subcommittee inquiry, Capital One allowed Ms. Fox to close her account and repay her debt at her former rate of 8%.

(7) **Marjorie Hancock of Arlington, Massachusetts** has four Bank of America cards, all of which carry debt balances. In August 2007, because her credit score had dropped, Bank of America increased the interest rate on one of her cards from 19% to 27%, even though she regularly paid all of her credit card bills on time. The 27% rate was applied to her existing debt on the card. Her four Bank of America cards now carry interest rates of 8%, 14%, 19%, and 27%, even though she carries similar amounts of debt on each and presumably presents each with the same credit risk. In addition, although Bank of America increased her rate on one card because she was allegedly a higher credit risk, it has continued to mail her credit card checks allowing her to incur still more debt.

(8) **Donna Bernard of Dallas, Texas** has multiple credit cards with substantial debt but pays her credit card bills on time and pays at least the minimum amount due. She has not used her Chase credit card since 2001 to make a purchase, instead making regular payments to reduce a $7,900 debt. Despite her on-time payments, Chase nearly doubled her interest rate, from 15% to 29%. Ms. Bernard attempted to opt out of the increase, but was told she had missed the opt out deadline and closed accounts are not protected from interest rate increases. Before the increase, when Ms. Bernard made a $170 payment, about $100 went to pay for finance charges and $70 to pay down the principal debt. After the increase, out of a $200 payment, $199.75 went to pay for finance charges and only 25 cents went to pay down the principal debt. After a Subcommittee inquiry about the account, Chase restored her 15% interest rate.