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10 MILLION AMERICANS LEFT OUT OF FED CREDIT CARD RULES WOULD BE PROTECTED BY SENATE BILL

New Analysis Shows Fed Rules Still Allow Onerous Rate Hikes For 80 Million Credit Card Accounts

A new analysis by the National Consumer Law Center shows that 80 million credit card accounts, representing about 10 million Americans, will still be vulnerable to oppressive rate hikes under new rules against unfair and deceptive practices adopted by the Federal Reserve Board. These consumers would, in contrast, be protected by the Credit CARD Act sponsored by Senator Chris Dodd, S. 414.

The Fed rules, scheduled to go into effect in July 2010, generally prohibit credit card lenders from applying a rate hike to an already existing balance, unless there is a teaser or variable rate. However, this important protection against "retroactive" rate increases excludes cardholders who have been more than 30 days late in making a payment in the previous year. The Senate bill does not contain the 30-days late exception.

"The Fed rules are a good first step, but families who need help the most – those trapped by the mortgage crisis, job loss, or medical debts – are left out cold," said Lauren Saunders, Managing Attorney at NCLC's Washington, DC office. "It would be unthinkable to double the interest rate on a homeowner who missed a payment, and ludicrous to claim that doubling mortgage rates is an effective way to deal with the mortgage crisis, so why is that conduct acceptable for credit card companies?" she asked.

Penalty rates are on average 16.9 points higher than base interest rates. A 2008 survey by Consumer Action found that the average penalty rate is 26.87%, with the highest at 31.99%.

"Families who are over 30 days late are often the very ones in the most financial trouble due to this dire economy. Doubling the interest rate on purchases they may have made years ago when the rate was lower only shoves these distressed families deeper in the hole and makes it impossible to climb out," said Chi Chi Wu, NCLC Staff Attorney.