NATIONAL CONSUMER LAW CENTER

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HIGH-FEE, LOW-CREDIT PREDATORY CREDIT CARDS PREY UPON THE POOR

"Fee-harvester" Cards Exploit Low-Income Consumers Need for Financial Services; How Consumers With "$250 Credit Limit" End Up With $72 in Buying Power.

BOSTON, Mass., November 1, 2007 – A major warning today for consumers: Banks and marketers, taking advantage of inadequate laws and weak oversight by regulators, are quietly collecting hundreds of millions of dollars in profits selling nearly worthless predatory credit cards targeting vulnerable consumers, including those with bad credit, according to a new report from the nonprofit National Consumer Law Center (NCLC).

The report, "Fee-Harvesters: Low-Credit, High-Cost Cards Bleed Consumers," opens a window on a shadowy submarket where savvy card companies extract hundreds of millions of dollars in fees and other revenue from the pockets of consumers in the so-called subprime market. One of the fee-harvester cards featured in the NCLC report comes with a credit limit of $250. However, the consumer who signs up for this card will automatically incur a $95 program fee, a $29 account set-up fee, a $6 monthly participation fee, and a $48 annual fee – an instant debt of $178 and buying power of only $72.

Fee-harvesting is extremely lucrative for the industry. In 2006, Atlanta-based CompuCredit – one company featured in the NCLC report – collected $400 million in fees from a portfolio of fee-harvester cards that by mid-2007 had saddled cardholders with nearly $1 billion in debt.

As the NCLC report explains: "… CompuCredit, frustrated in efforts to get its own bank charter, has marketed fee-harvester cards in partnerships with compliant banks that act as issuers. Recently, CompuCredit partnered with Urban Trust Bank, which says its "mission" is to bring affordable banking services to minority communities …Several small banks specialize in the issuance of fee-harvester cards, including South Dakota-based First Premier and First National of Pierre, and Delaware-based First Bank of Delaware and Applied Bank, formerly known as Cross Country Bank. Some big banks also have big stakes in the subprime market, including Capital One, which has sometimes used the fee-harvesting model, and HSBC."

"The current subprime mortgage crisis has highlighted abusive lending practices by profit-driven banks and marketers that now threaten millions of Americans with the loss of their homes," noted NCLC Consumer Advocate Rick Jurgens. "While attracting much less attention, the use of fee-harvester cards and other high-cost credit cards provide another channel by which predators – often with the backing of Wall Street – profit from the poor."

Consumer Action's Consumer Services Manager Joseph Ridout said: "Like all predatory lenders, issuers of these fee-harvesting cards make the claim that they are going out of their way to provide credit to sub-prime borrowers. But when you check the numbers, the intent is to extract as many junk fees as possible from those who can least afford it, and the effect is to keep these borrowers sub-prime."

Gabor Marsi, a 39-year-old Akron, Ohio, air conditioner repairman applied for and got a Capital One MasterCard after a bankruptcy caused by unexpected medical expenses. Capital One made Marsi pay a $50 application fee and gave him a card with a $200 credit limit. Marsi declined to sign up for a "diner's club" membership, but Capital One didn't take no for an answer.

As the NCLC report explains: "After Marsi and his wife used the card to charge a $130 baby crib, they were shocked to discover that the card had been charged $99 for the diner's club membership, and that the card's credit limit had been exceeded. The Marsis ended up paying $700 to finance their $130 baby crib and are now fighting a lawsuit by Capital One, which claims Marsi still owes $3500."

How did things get this bad for consumers and what should be done to fix the problem?

Federal statutes and bank regulators have preempted state laws designed to prevent lenders from taking advantage of consumers desperate for credit. This preemption, combined with too much bank-friendly regulation at the federal level and in some states, enables the credit card industry to boost the cost of credit and engage in multiple practices that hurt consumers.

Preemption has also allowed new threats to consumers to emerge alongside the high costs already pervasive in the subprime credit card market. Congress should act to close the legal and regulatory loopholes that allow fee-harvesters and other issuers of high-cost cards to profit from low-income and vulnerable consumers. Preemption should be abolished and limits on credit card fees, interest rates and terms should be enacted. Any offering by card marketers and issuers should deliver substantial credit to cardholders. Legally protected credit information about consumers should not be available to marketers and issuers who offer credit lines that are mostly consumed by fees.

Copies of the report are posted at the National Consumer Law Center web site at www.nclc.org.

ABOUT NCLC

NCLC is a non-profit organization specializing in consumer issues on behalf of low-income people. NCLC works with thousands of legal services, government and private attorneys, as well as organizations, who represent low-income and elderly individuals on consumer issues. Visit NCLC on the Web at http://www.nclc.org.