

Statement of Ranking Member at the Hearing on "Improving Credit Card Consumer Protection: Recent Industry And Regulatory Initiatives"

June 7, 2007

Good morning. Thank you, Chairwoman Maloney, for calling this hearing on recent regulatory and industry initiatives regarding credit card practices. Two weeks ago, the Federal Reserve released its long-awaited proposal updating credit card disclosure requirements. The 800-page proposal is the most significant change to credit card regulation in 26 years, and it is important for this Committee to gain a better understanding of its impact on consumers as well as the credit card industry.

Credit card disclosures are governed by the Truth-in-Lending Act and have been administered by the Federal Reserve Board under Regulation Z for the last 40 years. Over the years, the terms of credit card accounts have become more diverse and complex. For example, many credit card issuers impose higher fees, such as over-the-limit and late payment fees, instead of charging a simple, all-inclusive annual percentage rate with an annual fee.

In my view, the failure of credit card disclosure requirements to keep pace with market developments has resulted in some consumers not adequately understanding their credit card accounts. Consumers must be well-informed about credit card offerings in order to choose a product best suited to their individual needs. Hopefully the Federal Reserve's proposal will help meet those goals.

Although I believe the proposal will be an improvement for consumers, I am not convinced that it does enough to stop abusive credit card practices. While credit cards offer many Americans tremendous convenience in conducting their daily financial affairs, concerns have been expressed over a number of industry practices, including double-cycle billing, universal default, late payment fees, over-the-limit fees, and the shortening of grace periods.

Indeed, as the Ranking Member of this Committee, I have heard numerous complaints - both from constituents and from other Members on both sides of the aisle - regarding industry practices that they view as particularly unfair, and that are in some instances enough to offend the sense of justice of the average American. The level of dissatisfaction - and in the case of many of my constituents, anger - at these practices has reached a point where more than just enhanced disclosures may be needed to address the concerns. Several of the largest credit-card issuing financial institutions have recently announced changes to some of the practices that have caused the greatest public outcry - and I commend them for it - but it is nevertheless perfectly appropriate for this Committee to fully examine these issues to ensure adequate protection of the American consumer.

The credit card industry's aggressive marketing of its products to college students is of particular concern to me. According to statistics, 55 percent of college students acquire their first credit card during their first year in college, and 92 percent have at least one credit card by their second year in college. Yet only 26 percent of young people between the ages of 13 and 21 are taught by their parents how to manage money and credit. Aggressive marketing on college campuses, coupled with low levels of financial literacy among the target audience for those marketing appeals, have resulted in many students becoming saddled with huge debt burdens that continue to plague them long after their college careers have ended.

Today's hearing should shed some light on ways to improve consumer protections for these students and for all credit card users, and I look forward to hearing from our witnesses.

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