



BARACK OBAMA'S PLAN TO REFORM CREDIT CARD PRACTICES

Rising credit card debt is becoming an increasingly important issue for middle class families. The average household credit card debt has tripled over the past fifteen years. The typical American household now has over \$9,600 in debt.¹ And bankruptcy rates have been steadily rising over this past year.² Federal laws used to support hard-working, middle class families, but Washington lobbyists have taken charge. They have spent millions to write the rules of the game for credit cards and other forms of consumer credit.³ Barack Obama believes that we must address this growing problem by ensuring that Americans pay what they reasonably owe and that credit card companies do not engage in unscrupulous practices that trick families into taking on more debt and trap them from getting out of debt. As president, Barack Obama will enhance regulation of the credit card industry to protect consumers, and increase federal assistance for local financial literacy and financial planning initiatives.

Rather than stand up for working families, John McCain has repeatedly sided with banking industry lobbyists on credit issues. John McCain voted against an effort to increase transparency on credit card bills,⁴ and he even opposed regulations to protect minors from risky credit cards.⁵ McCain voted to protect the interests of the banking industry over working families struggling to recover after bankruptcy proceedings – a measure that Barack Obama strongly opposed.⁶ John McCain's advocacy on behalf of the banking industry has continued in this presidential campaign. McCain has advocated nearly \$2 trillion in corporate tax cuts,⁷ while proposing no protection for families victimized by predatory credit card schemes. Barack Obama is the candidate with the judgment, record and leadership we need to enact commonsense regulations that level the playing field between consumers and the banking industry.

BARACK OBAMA'S CONSUMER PROTECTION PLAN

Create a Credit Card Rating System to Improve Disclosure: According to the Wall St Journal, credit card contracts have gone from a page long back in 1980 to 30-plus pages, and no one can understand any of the terms.⁸ This is not a functioning market. Instead of facilitating tricks and traps pricing, our government should make the worst practices illegal. Barack Obama will create a credit card rating system, modeled on five-star systems used for other consumer products, to provide consumers an easily identifiable ranking of credit cards. Under the Obama plan, the Federal Trade Commission (FTC) will assess the degree to which credit cards meet consumer-friendly standards. The FTC will test for a set of credit card features that are deemed the most dangerous for consumers, including the underwriting standards used to issue the card, the card's interest rate spread between the introductory rate and the maximum rate allowed, and transaction fees. The FTC will assign ratings to each card so that consumers can easily understand if a credit card agreement meets or exceeds standards of safety. Credit card companies will be required to display the rating on all application and contract materials, enabling consumers to quickly understand all of the major provisions of a credit card without having to rely exclusively on fine print in lengthy documents. Credit card companies will also be required to disclose in simplified, clear language all of the major features of the card in addition to their FTC rating to provide consumers with additional information to compare credit card products.

Establish a Credit Card Bill of Rights to Protect Consumers: Credit cards could turn into the next subprime market crisis. Every American should be able to easily understand how risky a given credit card is. Equally

important, every American should have a uniform set of rights while dealing with credit card companies, no matter their financial status or credit history. To protect those rights, Barack Obama will require the Federal Trade Commission to analyze credit card company compliance with these basic rights, and to provide the Department of Justice with the full authority to investigate and penalize non-compliant companies. The Obama credit card bill of rights will:

- **Ban Unilateral Changes:** Currently, credit card companies can unilaterally change the terms of a credit card agreement at any time for any reason with only a 15-day notice to the consumer. Barack Obama will ban these unilateral changes in credit card agreements unless companies have obtained written consent from consumers and have followed the rules and terms of the agreement.
- **Apply Interest Rate Increases Only to Future Debt:** Credit card companies often apply increased interest rates to both new debt incurred by the cardholder, as well as previously incurred debt. Barack Obama will require increased interest rates to apply only to future credit card debt, not to debt incurred prior to the increase.
- **Prohibit Interest on Fees:** Credit card companies often charge interest on transaction fees, such as late fees or paying a bill by telephone. Barack Obama will prohibit credit card issuers from charging interest on transaction fees.
- **Prohibit “Universal Defaults”:** “Universal defaults” are a practice in which a credit card company raises interest rate for someone who has made every payment on time, but who has a problem or late payment with a different creditor. Barack Obama will prohibit this practice.
- **Require Prompt and Fair Crediting of Cardholder Payments:** Barack Obama will require credit card issuers to apply payments first to the credit card balance with the highest rate of interest and to minimize finance charges.

Reform Bankruptcy Laws to Protect Families Facing a Medical Crisis: More than half of all personal bankruptcies today are caused in part by medical bills.⁹ Barack Obama will protect workers who fall into personal bankruptcy as a result of a medical crisis. Current law, which Obama opposed in the 2005 bankruptcy bill, provides too many families with inadequate relief when faced by an unforeseen medical crisis. Obama will create more protection for families hit by a medical crisis. If a person can demonstrate to the satisfaction of the bankruptcy court that the reason they filed for bankruptcy was a result of debts incurred through medical expenses, then Obama believes they should have a better chance to use bankruptcy to get back on their feet.

Cap Outlandish Interest Rates on Payday Loans and Improve Disclosure: In the wake of reports that some service members were paying 800 percent interest on payday loans, the U.S. Congress took bipartisan action to limit interest rates charged to service members to 36 percent. Barack Obama believes that we must extend this protection to all Americans, because predatory lending continues to be a major problem for low and middle income families alike. Obama also believes that we need to ensure that all Americans have access to clear and simplified information about loan fees, payments and penalties, which is why he’ll require lenders to provide understandable information during the loan application process. Furthermore, Obama will work to empower more Americans in the fight against predatory lending by supporting initiatives to improve financial literacy and financial planning.

Encourage Responsible Lending Institutions to Make Small Consumer Loans: Some mainstream, responsible lending institutions are beginning to enter the short-term lending market to provide many Americans with fair alternatives to predatory lending institutions. These loans provide a reasonable period of time to be repaid, charge fair interest rates, and often ensure that the borrower has the ability to repay the loan on time. Some of these lending efforts are coupled with enhanced financial literacy training, which can ensure that Americans do not become caught in a never-ending cycle of debt. Barack Obama will work with his Secretary of Treasury and the Federal Deposit Insurance Corporation to encourage banks, credit unions and Community Development Financial Institutions to provide affordable short-term and small dollar loans – and to drive the sharks out of business.

¹ USA Today, 11/16/07, <http://blogs.usatoday.com/oped/2007/11/our-view-on-pre.html>

² Center for American Progress, 04/17/08, http://www.americanprogress.org/issues/2008/04/bankruptcy_column.html

³ CNBC.com, 06/05/08, <http://www.cnbc.com/id/24986888/for/cnbc>; Edmund Mierzwinski, 11/23/04, <http://www.pbs.org/wgbh/pages/frontline/shows/credit/interviews/mierzwinski.html>

⁴ United States Senate vote #15, 03/25/05,

http://www.senate.gov/legislative/LIS/roll_call_lists/roll_call_vote_cfm.cfm?congress=109&session=1&vote=00015

⁵ United States Senate vote #274, 09/17/98,

http://www.senate.gov/legislative/LIS/roll_call_lists/roll_call_vote_cfm.cfm?congress=105&session=2&vote=00274

⁶ United States Senate vote #44, 03/10/05,

http://www.senate.gov/legislative/LIS/roll_call_lists/roll_call_vote_cfm.cfm?congress=109&session=1&vote=00044

⁷ Robert Gordon and James Kvaal, Center for American Progress Action Fund, 03/08,

http://www.americanprogressaction.org/issues/2008/pdf/tax_agenda.pdf

⁸ Mitchell Pacelle, Putting Pinch on Credit Card Users, Wall Street Journal, 07/12/04

⁹ Himmelstein, Thorne, Warren and Woolhandler, *Illness and Injury as Contributors to Bankruptcy*, HEALTH AFFAIRS, 02/02/05