

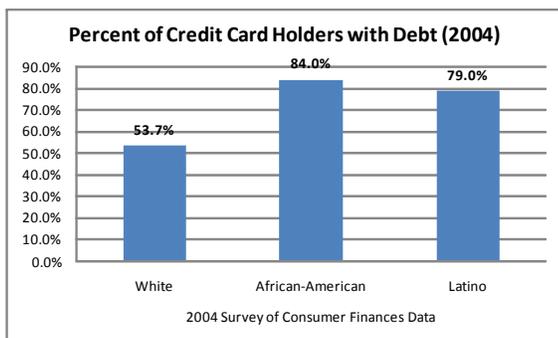


NULPI FACT SHEET: Credit Card Holders Bill of Rights Act of 2009

May 28, 2009

- Blacks and Latinos are more likely to pay high interest rates and fees
- New law will provide substantial protections against retroactive interest rate increases, excessive fees and unfair billing practices

Although fewer African Americans and Latinos households have credit cards than non-Hispanic whites, they are much more likely to carry debt and to pay higher rates on that debt. A study that uses the 2004 Federal Reserve data found that 14.9% of blacks and 12.9% of Latinos pay more than 20% APR, compared with only 7.1% of whites. Penalty fees (e.g. for missed payments) make credits cards even more expensive—40% of blacks reported a late or missed payment in 2004, compared to 21% of all consumers.¹ This can lead to a lower credit score and higher interest rates on all credit, including mortgages. The latest data (from 2007) indicates that more minorities are carrying balances than in 2004, and that for all families carrying debt, the median balance increased 25%.² There has been a growing perception that credit card companies have created a system skewed against lower-income households, increasing interest rates and fees to make it harder for people to pay off their balances.



¹ Wheary, Jennifer and Tamara Draut. *Who Pays? The Winners and Losers of Credit Card Deregulation*. Demos, 2007.

² Brian K. Bucks et al. *Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances*. Federal Reserve, 2009.

The Credit Cardholders' Bill of Rights

On Friday, May 22nd 2009, President Obama signed the Credit Cardholders' Bill of Rights into law (P.L. 111-24), which amends the Truth in Lending Act. This legislation takes some important steps to curb what many see as abusive practices by the credit card industry that particularly affect low-income and minority borrowers. Some of the major provisions:

- Prohibits unjustified and retroactive rate hikes unless borrower is at least 60 days late
- Limits excessive fees, including over-the-limit fees and fees to pay by phone or online
- Restricts marketing and card issuance to consumers under 21 unless they can demonstrate the ability to pay

Some of the other provisions include 45 day advance notice of any rate increase or change in terms, a ban of "double-cycle" billing (charging interest on the portion of the balance paid by the due date) and applying payments in excess of the minimum to the portion of the credit card balance with the highest interest. Consumers would have to agree to allow over-the-limit transactions before they are charged for such transactions. Statements would also have to be mailed 21 days before the bill is due, rather than 14 days at present. The bill also eliminates inactivity fees on gift cards and improves disclosure rules for all cards.

Too late for many?

The law goes into effect at the end of February, 2010, but it may already be too late for some consumers. There is evidence that credit card companies are increasing rates and cutting credit for all their customers, including those who pay on time. A survey conducted in February found that 33.7% of 1,004 borrowers said their credit card company increased their rate or minimum payment, changed their due dates, scaled back their rewards program or closed their account.³

³ Trejos, Nancy. *Toxic Plastic: Relief Too Late for Many as Rats Rise, Credit Limits Fall*. Washington Post, May 17, 2009.