WOMEN & MONEY

Is Washington finally serious about credit card reform?

BY SUZE ORMAN
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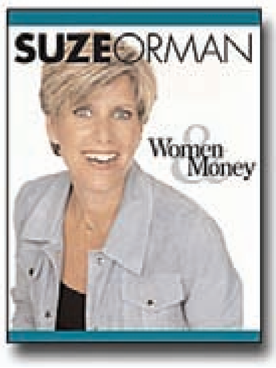

In early May, the Federal Reserve issued a series of new proposals designed to curtail some of the more egregious credit card industry practices, while also requiring card companies to better disclose their rules to customers.

Better late than never

The Fed's new proposals would've been a lot more helpful if they had come long before we got to our national credit card crunch. Currently in the United States, there's more than $900 billion in outstanding debt, much of it accruing interest at rates well above 15 percent and susceptible to arcane rules and practices that generate major fee revenue for the credit card companies.

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But I suppose we'll have to be grateful for this better-late-than-never approach. And the Fed's proposed rule changes do offer some solid consumer protections:

• Credit card issuers wouldn't be able to arbitrarily increase the interest rate on your card. There would have to be a concrete reason for raising the rate, such as not making the minimum payment by the due date, or a change in the underlying index that's used to set the interest rate.

• Statements would have to be mailed at least 21 days before the payment is due rather than the current 14-day minimum. This is designed to make it less likely that credit card issuers can catch cardholders off-guard by moving up a due date, so the cardholder ends up making a late payment. At an average $39 per late fee, it's easy to see why card companies have been happy to push customers into being late.

• Card issuers would be prohibited from using your payments to pay down only your balances with the lowest interest rate. This practice has been a credit card company favorite: Lure new customers in with a low introductory rate for a balance transfer, then impose a high interest rate on new charges or cash advances. Then, when the cardholder makes a payment, it's credited to the low-rate balance rather than the higher-rate debt.

In other words, the card company just keeps charging you more and more on your growing high-rate debt. The new regulations would require that at least a portion of every payment be credited to your high-rate debt.

• The two-cycle billing system would be abolished. This practice, used by many card issuers, creates a higher balance due for cardholders who only have an unpaid balance from time to time.

Congress takes on card problems

A year ago Congress held hearings to learn more about credit card billing practices. No legislation ever came out of those hearings. A few of the major credit card issuers hauled up to the Hill to testify tried to play nice by voluntarily rescinding their use of Universal Default. That's the system whereby you can pay your credit card bill on time, yet still see your interest rate skyrocket if the card issuer happens to notice you didn't pay any of your other bills — completely unrelated to your credit card — on time.

And then at the end of April, Sen. Christopher Dodd, D-Conn., introduced the Credit Card Accountability, Responsibility and Disclosure Act.

Unaddressed issues

I was especially interested in a few new items in Sen. Dodd's bill that the Fed didn't address:

• Require card companies to show account holders the total time and total expense they'll incur if they choose to pay only the minimum balance due each month.

I would've liked it if this proposal went one step further: Show by how much both the time and total payment would decrease if the cardholder paid 1 percent, 2 percent and 3 percent more than the minimum amount due each month. Showing those figures side by side with what happens if you pay just the minimum is motivation for paying more each month.

• Curtail credit card companies from proactively pushing credit card offers on consumers under the age of 21.

Under the new bill, these young adults would have to initiate contact with the card company to apply for a card. ■

— Suze Orman is a best-selling author and Emmy award-winning TV host whose new book, "Women and Money," was published in March 2007. For details, please visit www.suzeorman.com.

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