

Assembly Joint Resolution

No. 18

Introduced by Assembly Member Lieu

May 18, 2009

Assembly Joint Resolution No. 18—Relative to credit card reform.

LEGISLATIVE COUNSEL'S DIGEST

AJR 18, as introduced, Lieu. Credit card reform.

This measure would call on Congress and the President of the United States to work together in enacting credit card reforms to protect consumers from unfair credit card practices.

Fiscal committee: no.

1 WHEREAS, Consumers have become reliant on credit cards as
2 a critical vehicle in facilitating purchases with almost 80 percent
3 of United States families currently holding a credit card; and

4 WHEREAS, In the midst of an extraordinarily difficult economic
5 climate, in which the California unemployment rate reached 11.2
6 percent in March 2009 and the colossal wave of home foreclosures
7 is diminishing homeowners' equity, credit card companies should
8 not implement unfair and deceptive practices that further weaken
9 the purchasing power of consumers and their ability to survive;
10 and

11 WHEREAS, Based on a March 31, 2009, study of over 400
12 credit cards, Pew Charitable Trusts found that all of those credit
13 cards included one or more practices that are considered unfair or
14 deceptive under Federal Reserve guidelines. For example, the
15 terms and conditions of 93 percent of the cards allowed the card
16 issuer to increase the interest rate at any time by modifying the

1 account agreement and 87 percent of cards permitted an automatic
2 penalty interest rate increase on all balances less than 30 days past
3 due, with the median allowable penalty interest at a 27.99 percent
4 annual percentage rate; and

5 WHEREAS, Universal default permits increases in the interest
6 rate of a credit card user based on reasons unrelated to the user's
7 performance on that credit card, such as failure to pay a utility bill
8 or obtaining new credit on a car or home loan; and

9 WHEREAS, Under a double-cycling or two-cycling billing
10 method, a credit card company may calculate the interest payment
11 due on a credit card balance by averaging the balance over two
12 billing cycles thereby charging cardholders interest on previously
13 paid balances; and

14 WHEREAS, For a credit card account with multiple balances
15 at different interest rates, credit card companies may automatically
16 allocate the card user's payment to the balance subject to the lowest
17 rate and, according to the Center for Responsible Lending, this
18 type of payment allocation can increase credit card rates by as
19 much as seven percentage points; and

20 WHEREAS, According to the United States Government
21 Accountability Office, 13 percent of active credit accounts were
22 assessed over-limit fees with most charges ranging from thirty-five
23 dollars (\$35) to thirty-nine dollars (\$39) in 2005. These over-limit
24 fees, like other deceptive practices, have produced an undue
25 financial burden to consumers; and

26 WHEREAS, In addition to over-limit fees, credit card companies
27 participate in late fee traps that punish consumers with weekend
28 and holiday deadlines. These wrongful practices combined with
29 the current economic recession warrant that credit card companies
30 provide sufficient notice, at least 21 days, prior to the due date of
31 a credit card bill to users; and

32 WHEREAS, Credit card companies can harm consumers by
33 increasing a nonpromotional interest rate on existing, outstanding
34 balances, and the effect of this increase on an existing, outstanding
35 balance can negatively affect a household's financial stability; and

36 WHEREAS, The Federal Reserve System, the Department of
37 the Treasury, and the National Credit Union Administration has
38 acknowledged some of the unfair practices credit card companies
39 use in their report "Unfair or Deceptive Acts or Practices" and

1 have adopted rules to mitigate the negative effects of these
2 practices, which will become effective July 2010; and

3 WHEREAS, Although the Legislature acknowledges that federal
4 agencies have conducted extensive studies and enacted some
5 appropriate regulations that will protect credit card users from
6 credit card companies' abusive practices, it is the intent of the
7 Legislature to support Congressional legislation to eliminate
8 payment allocation to the lowest rate balance first and interest
9 payment abuses connected with double-cycling; to provide that
10 payment notices are sent at least 21 days prior to the due date; and
11 to address the issue of universal default, over-limit fees, and
12 nonpromotional interest rate increases on existing, outstanding
13 balances; and

14 WHEREAS, In the worst economic decline since the Great
15 Depression, it is even more imperative to ensure that credit card
16 companies with fair card practices are not at a competitive
17 disadvantage and that consumers are not adversely affected by the
18 hidden fees that credit card companies have profited from over the
19 years; now, therefore, be it

20 *Resolved by the Assembly and the Senate of the State of*
21 *California, jointly,* That the Legislature of the State of California
22 respectfully urges the Congress and President of the United States
23 to work together in enacting credit card reforms to protect
24 consumers from unfair credit card practices; and be it further

25 *Resolved,* That the Chief Clerk of the Assembly transmit copies
26 of this resolution to the President and Vice President of the United
27 States, to the Speaker of the House of Representatives, and to each
28 Senator and Representative from California in the Congress of the
29 United States.

O