Fair and Justifiable Credit Card Interest Rate Act of 2008 Would Help End Abusive Credit Practices Against Consumers

Washington, DC - In an effort to begin to put an end to the abuse millions of Americans are facing from credit card companies, Congressman Maurice Hinchey (D-NY) today introduced a bill in the House, the Fair and Justifiable Credit Card Interest Rate Act of 2008, that would put a maximum cap of 20 percent on the interest rate that credit card companies can charge consumers.

"With the cost of living soaring, Americans are turning to their credit cards more than ever just to keep up with it all. Credit card companies are taking advantage of millions of people by unfairly jacking up their rates in the blink of an eye often over very minor things," Hinchey said. "Enough is enough. Credit card companies have the right to make a profit, but they don't have the right to rip people off. This bill would put a cap on credit card interest rates so the 'worst case scenario' is clearly known up front by all parties and the rate is held within check."

Millions of Americans are drowning in credit card debt. The Federal Reserve's last published survey on credit card debt was in 2004 and it revealed that American households with credit card debt had a median balance of $2,200. Given that the economy has taken a much sharper turn for the worse since 2004, those figures are considered low. A new Federal Reserve report on credit card debt is due next year. Outside groups have examined the issue of credit card debt more recently. A 2007 survey by CardTrak.com found that American households with credit card debt owed a median of $6,600, and that less than one-third of household pay of their balances monthly. The survey also found that 13 percent of those who carry credit card debt have balances in excess of $25,000.

In February 2008, the amount of actual revolving debt, which includes mostly credit card debt and overdraft protection in the United States, was $951.7 billion -- an increase of $10.3 billion from the previous month. Many Americans are only able to pay the minimum monthly amount due on their credit card debt, which means that they only pay a portion of the interest on their cards and nothing on the principal. Currently, there is no federal cap for interest rates and some people are forced to pay interest rates over 40 percent, giving them no chance to pay off their balance in the future.

Recently, the Federal Reserve proposed several changes to credit card regulations, the most dramatic of which would limit the ability of credit card companies to change interest rates on borrowers' existing balance. The proposal tries to limit credit card companies from enacting retroactive interest rate increases except in certain instances. Hinchey believes that the Federal Reserve's proposal is a good first step, but that much more action is needed to curb credit card company abuse. In particular, Hinchey said the Federal Reserve's proposals failed to address the overall interest rate percentage that can be charged on a particular card.

"It would be nearly impossible for anyone to pay off a credit card balance with an interest rate over 20 percent," Hinchey said. "We need to help Americans get out of debt, not get further into debt. With home prices plummeting, home equity loans are becoming harder to attain for many people. As a result, those people are turning to high interest credit cards to make major payments. In turn, those people fall into high levels of debt, which is very daunting and suffocating."

Congressman Raúl M. Grijalva (D-AZ), Congresswoman Barbara Lee (D-CA), Congressman Dennis Kucinich (D-OH), Congressman Jim McDermott (D-WA), and Congresswoman Lynn Woolsey (D-CA) are original cosponsors of the Fair and Justifiable Credit Card Interest Rate Act of 2008. Hinchey is now in the process of securing additional support for the measure.