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## **MADIGAN CALLS FOR STRONGER FEDERAL REFORMS FOR CREDIT CARD INDUSTRY**

### ***Attorney General Urges Stronger Consumer Protections Amid Housing Crisis***

Chicago—Attorney General Lisa Madigan weighed in Monday on a federal proposal that aims to reform some of the most abusive practices of the credit card industry. In commenting on the proposed federal rule issued by the Federal Reserve Board and two other federal banking agencies, Madigan expressed general support for the proposed reforms but urged the federal regulators to go further to protect consumers in light of the ongoing home foreclosure crisis and economic downturn.

“It is more important than ever that consumers be treated fairly and understand their credit card terms so that they can manage their finances accordingly,” Madigan said.

The proposed federal rule would give consumers more time to pay their credit card bills, require companies to allocate payments fairly between low-interest and high-interest account balances, and protect consumers from certain unexpected increases in the interest rate on their existing balances.

With Americans carrying \$2.56 trillion in consumer debt, up 22 percent since 2000, Madigan said it was past time that federal regulators, which have almost exclusive authority over the credit card industry, step in and put a stop to hidden fees and unfair accounting practices that are designed to keep cardholders on a treadmill of debt. Madigan based her comments on the many consumer complaints her office receives concerning unfair practices in the credit card industry. Complaints related to credit and financial services ranked second among the top 10 consumer complaints filed with Madigan’s office in 2007. Of the 32,577 complaints Madigan’s consumer fraud bureau received last year, more than 1,000 concerned problems with credit card companies.

Specifically, Madigan’s comments express support for a number of the proposed reforms and urge the federal agencies to enact even tougher protections for credit card consumers. She recommends, for example, that when allocating payments on a card with different annual percentage rates, credit card companies be required to put all of the payment toward the balance with the highest interest rate. Under the current proposal, credit card companies would be allowed to divide a payment among multiple balances, including the balance with the lowest annual interest rate.

Madigan expressed particular concern that the proposed regulation would not ban the practice of universal default. Universal default clauses in credit card agreements permit credit card companies to raise the interest rate on a card's existing balance based on events that are entirely unrelated to the cardholder's payment history on the account – such as when the cardholder is carrying a high balance on another credit card or makes a late payment on a utility bill.

Although credit card companies would be prohibited under the proposal from charging extremely high penalty rates when a universal default clause is triggered, the proposed regulation would still permit credit card companies to raise the interest rate significantly for events over which the cardholder often has little or no control. Calling this practice “fundamentally unfair,” the Attorney General's written comments recommend that the regulators ban universal default clauses altogether.

Madigan's comments express support for many of the reforms included in the proposed regulations. For example, if the regulation is adopted, credit card companies could no longer:

- Treat a credit card payment as late unless the bill is mailed to the consumer at least 21 days before the due date (up from the current 14-day period);
- Apply payments first to the balance with the lowest interest rate when allocating payments on a card with different annual percentage interest rates (e.g., for balance transfers, purchases and cash advances)—a now-common practice that keeps consumers in debt longer and at higher rates;
- Raise the interest rate on an outstanding balance except in a limited set of circumstances;
- Engage in two-cycle billing, which is the practice of looking back to balances in the preceding billing cycle when calculating finance charges for the current cycle;
- Charge over-limit fees on credit cards (or overdraft fees on debit cards) if the account limit was exceeded as a result of a hold placed on the card by a business, such as a hotel or gas station; and
- Charge overdraft fees on debit cards unless cardholders are given notice and an opportunity to opt out of overdraft payments.

Madigan believes that limitations on late fees and other penalty charges are especially important for families trying to regain their economic footing. Average late fees on credit cards rose from less than \$13 in 1994 to \$35 in 2007, while over-limit fees more than doubled, rising from \$11 to \$26.

The comment period for the proposed rule ended on Monday. The Federal Reserve Board is proposing the rule jointly with the National Credit Union Administration and the Office of Thrift Supervision.

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