$963 billion in plastic debt: The next financial meltdown?

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Author: Tim Wheeler

WASHINGTON—Amid warnings that the nearly $1 trillion in credit card debt held by consumers could be the “next financial meltdown,” President Obama and the House and Senate are moving quickly to enact a credit cardholders “Bill of Rights.”

The president hosted 14 CEOs of the major credit card companies at the White House recently warning them bluntly that abusive and deceptive practices that squeeze credit card holders with sudden increases in interest rates, late charges and fees must end. “I trust that those in the industry who want to act responsibly will engage with us in a constructive fashion to get this done in short order,” Obama told the CEOs. “The days of any time, any reason rate hikes and late fee traps have to end.”

Obama disagreed with the plea by the CEOs that new rules and regulations announced by the Federal Reserve last fall - but not scheduled to take effect until July 2010 - are sufficient to take care of the problem.

The president said he will push the House and Senate to quickly enact a “Credit Cardholders Bill of Rights” to protect consumers.

Last fall, a Business Week article was headlined, “The Next Meltdown: Credit Card Debt.” Much of the $963 billion in credit card debt is “toxic” the article reported. “The consumer debt bomb is already beginning to spread shrapnel through the financial markets,” it stated, adding “Credit card companies were unable to collect $41 billion in credit card debt in 2008 and are expected to lose another $96 billion in 2009” as layoffs and bankruptcies spread.

Sharon Reuss, a spokesperson for the Center for Responsible Lending (CRL), told the World, “The fact that protecting credit card holders has been elevated to a meeting at the White House is a huge advance for borrowers.”

CRL is a member of a broad coalition of consumer groups that united behind the “Credit Cardholder’s Bill of Rights” legislation authored by Rep. Carolyn Maloney (D-NY) and approved in the House last Sept by a 312 to 112 vote. The bill died, however, when the Senate failed to enact their version of the bill.

The coalition, which includes the AFL-CIO, Consumer Federation of America, United Auto Workers, the Leadership Conference on Civil Rights USAction and many other progressive organizations wrote an open letter to all members of Congress last January demanding prompt enactment of the Credit Cardholders Bill of Rights.

The letter said the bill “curbs some of the most arbitrary, abusive, and unfair credit card lending practices that trap consumers in an unending cycle of costly debt,” adding, “These tricks and traps have always been unfair, but they produce devastating financial repercussions in times of financial difficulty. Working families are particularly hard-hit as they are paying more each year in unreasonable fees and credit card interest.”

The letter continues, ominously, “Signs that credit card delinquencies and defaults are rising to historically high levels suggests that many families cannot sustain the cumulative burdens of these abuses. The sub-prime meltdown demonstrates the importance of ending abusive lending practices when warning signs rise.”

House Speaker Nancy Pelosi (D-CA) this week urged Congress to approve the legislation pointing out that it would end “unfair, arbitrary interest rate increases by requiring ample notice before rate hike and permitting lenders to raise rates on existing balances only if minimum payments are more than 30 days late.”

It would also end penalties on cardholders who pay on time like charging interest on already repaid debt. And it would protect consumers from due date gimmicks by requiring credit card companies to mail bills 25 days (instead of 14) before the due date. It would also require companies to give 45 days advance notice of any rate increase.

CRL released a report last year, “Priceless or Just Expensive? The Use of Penalty Rates in the Credit Card Industry,” denouncing hidden fees and penalties that grew by 69 percent between 2003 and 2007.

“For a household with the average amount of $10,678 in credit card debt, being penalty re-priced on all their balances would result in an additional $1,800 in interest costs per year,” the report said.

Two years ago, just as the current recession was looming, CRL released a report, “The Plastic Safety Net: The Reality Behind Credit Card Debt in America.” The report warned that credit card debt had nearly tripled in the 1990s and had increased 31 percent since 2000. Tamara Draut, co-author of the report declared, “The results are clear: Wages have stagnated while medical and housing costs have skyrocketed and if confronted with a layoff or health emergency there are few if any personal or public safety nets….Households are turning to high-cost credit cards to keep afloat.”

The grimfaced CEO’s left the White House without speaking to reporters.

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