

## **Testimony to Financial Services Subcommittee on Financial Institutions and Consumer Credit**

First, I want to commend the Chair's and Senator Levin's work on trying to create a better credit card environment for consumers. Many credit card practices are unconscionable and should not be allowed and I believe you are taking appropriate and timely action to address these problems.

Credit card debt is now clobbering American families like a wrecking ball. Coupled with \$110 a barrel oil, and the sub-prime mortgage mess, credit card debt is now the third leg of a very wobbly economic stool on which millions of American families sit.

The trouble with credit cards is that all too often the marketplace fails the millions and millions of Americans who want to manage their money responsibly.

Many credit card issuers stack the deck against the consumer before the consumer even knows what the deck looks like. A consumer will apply for a credit card and not know what kind of an agreement he will be given until after his credit score gets knocked because of the credit check he had to go through to get the card. Or, a consumer may have a great interest rate on a card and always pay that card on time, then suddenly realize one day that the interest rate has skyrocketed because he has charged too much or missed a payment on a totally unrelated credit card.

Many of these practices are unconscionable, and I applaud my colleagues for their efforts to combat them.

However, I believe that while we consider how to address these particular problems, we should also consider how we can create a more level playing field so consumers can get a fair shake. Right now, issuers hold all the cards. Sure, issuers say that their customers can change credit cards anytime, but in reality, they can't. Credit scores are a large factor in determining which credit card a consumer applies for, and the number of times that you have applied for credit recently, and the length of time that you have held a single card, count towards your credit-worthiness. So, while issuers say their market is competitive, the reality is that consumers who may want to change their credit cards often can't do so because they need to protect their credit scores.

This makes the choice of which credit card to apply for an important and long-lasting decision. But, if there is no information for the consumer about all of the card issuer's practices at the time of application, how can a consumer make an informed choice? Once they receive the card and have a 42-page credit card agreement that bears a strong resemblance to the complexity of our tax code, how can they know that they'll be treated fairly? If, in the unforeseeable future, an issuer comes up with a new term as unfair as "universal default," how can a consumer know that it is something to pay close attention to?

I believe that the committee should consider, in addition to the Chair's Credit Cardholder's Bill of Rights, an ongoing system that would arm consumers up front with the kind of information they need to make informed choices. Such a system would encourage better practices by rewarding issuers that abandon unfair practices, or that innovate consumer-friendly ones.

That is why I and Sen. Obama introduced the Credit Card Safety Star Act. It creates a system that gives consumers an easy, visual cue that tells them whether the credit cards they're about to use are relatively safe, or require close scrutiny by the cardholders to understand how it works.

I believe the challenge to creating an ongoing system is two-fold:

1. We need to protect the consumer from rip-off lending practices, and educate the public on steering clear of marketplace abuses, and
2. We need a new approach to government oversight over the credit card industry that will reward credit card companies who do right by their customers.

Our legislation would address both objectives by directing the Federal Reserve to establish a safety rating system for credit cards. Cards with terms that are consumer friendly would be rated up, while cards with tricky terms that tend to get consumers in trouble would be rated down.

I want to be clear: in my rating system, there is no need for rating terms that are already well understood in the marketplace and have vigorous competition over them. This includes annual fees, interest rates, and rewards, which are not included in the legislation.

Our bill focuses on the trickier parts of agreements – parts that are never advertised and are buried in legal mumbo jumbo, larded with qualifiers, exemptions, and waivers, and incomprehensible to anyone who doesn't spend their free time reading the Uniform Commercial Code. It also rewards issuers for particularly friendly practices.

For example, credit card agreements that in which the terms can be changed at any time for any reason will get an automatic one-star rating. Credit card agreements that give consumers 90-days notice before the issuer intends to change the terms, with an option for the consumer to opt out and continue paying off their balance under the old terms, would be rated up.

Senator Obama and I see our proposal as operating in much the same way as the five-star crash rating system for new cars. The rating system for cars has worked: Americans have become better educated about how their cars will protect them in a crash, and the rating system has created stronger incentives for the industry to build safer cars.

Under our legislation, credit cards with five stars would be deemed the safest, while those with one star the least safe.

Credit card companies would have to display the ratings on all their marketing materials, billing statements, agreement materials and on the back of the card itself. Consumers would also be able to see the ratings for their card and how their card got that rating on a stand-alone Federal Reserve website.

The Federal Reserve will be responsible for updating the star system and making sure that if new terms or practices come to market, those terms or practices are assigned an appropriate rating.

Additionally, my legislation creates a Credit Card Safety Star Advisory Commission which would study the effectiveness of the star rating system. The Commission would also implement a study that would examine whether it would be better to eliminate certain unfair practices rather than simply giving them a rating under my system.

The safety star rating will increase competition between credit card companies over the fairness of the terms in their contracts, which will create an incentive for them to use fairer terms for more credit cards. When the Crash Test rating first came out, most cars only received one or two stars. Now, thanks to competition, many of them receive four or five. I believe the Safety Star rating will produce a similar result.

Card issuers currently compete on their ability to advertise, mostly advertising their interest rates and annual fees, but not on the fairness of their credit card contracts. It's like pitting Joe Camel against the Marlboro man to hide the fact that cigarettes are bad for your health. Card issuers advertise their great interest rates and their great rewards and try to tell you that their card will cost you less to use. Then they bury the information about early deadlines and arbitrary rules, and the card ends up costing you more. Consumers deserve to have the tools to make informed choices about what they buy. My bill will level the playing field and help people decipher the impossible texts of their agreements.

The Chair, Sen. Levin and others have introduced legislation to ban various practices and I certainly would support banning these egregious practices. However, card issuers will invent new practices, no matter how many are banned. This is a sophisticated industry. If all we do is ban existing bad practices, issuers will always be ahead of the game, and they will develop new unfair practices. That is why we need a new approach that would be built around empowering consumers in the marketplace.

Millions of Americans are walking on an economic tightrope. I would use classic American free market principles to help consumers make better choices while forcing credit card companies to compete, not on the basis of who can best craft abusive practices, but on the basis of who treats consumers the most fairly.