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Credit Card Sharks Crying Wolf

By Peter Dreier and Donald Cohen - May 20, 2009, 10:16AM

Sometimes business groups lie so blatantly that even their strongest allies in Congress have to call their bluff.

That's what happened this week when the U.S. Senate voted overwhelmingly to put new limits on the credit card industry, passing a bill to curtail its ability to raise interest rates at will and charge unreasonable fees. The bill also will require credit card issuers to explain their terms in fewer words and use plain English. The Senate voted 90-5 in favor, following a 357-to-70 vote in the House on April 30.

Even most Republicans voted for the bill, which is likely to arrive on President Barack Obama's desk before the Memorial Day recess.

Many Americans are awash in debt through no fault of their own. They are also angry at the government bailout of banks and insurance companies, while high-paid executives get huge bonuses. Americans have come to rely on credit to maintain decent living standards, but they don't approve of the many ways that credit card companies take advantage of consumers. These feelings have compounded public outrage over rip-offs by credit card companies owned by major financial services firms, including the Bank of America, JP Morgan Chase, Citigroup, Capital One, Discover Financial Services, and American Express.

Reflecting that public outrage, President Obama told a crowd in New Mexico last week that "you should not have to worry that when you sign up for a credit card, you're signing away all your rights. You shouldn't need a magnifying glass or a law degree to read the fine print that sometimes doesn't even appear to be written in English."

"This is landmark legislation," Travis B. Plunkett, legislative director for the Consumer Federation of America, told the Washington Post. "In particular, it's going to prevent credit card companies from suddenly and unjustly increasing interest rates which is pushing many consumers with credit card debt into bankruptcy."

But the industry has no shame. Edward L. Yingling, president and chief executive of the American Bankers Association, told the Post that the bill will "cause an unnecessary decrease in credit availability."

In other words, the banks that sponsor credit cards were threatening to go on strike - a credit strike -- if the federal government imposed rules to make them behave more responsibly toward consumers and small businesses. (In an unusual alliance with consumer groups, even the National Federation of Independent Business and the National Small Business Association backed the bill).

The consumer and small business groups understood that the banking industry was crying wolf. This is usually a successful formula for business lobby groups when they want to thwart efforts by reformers to establish government regulations that mandate responsible corporate practices. In the past, business has cried wolf over child labor laws, environmental protections, food and drug safety mandates, workplace safety, and many other issues.

The pharmaceutical and insurance industries are now crying wolf over Obama's plan to strengthen regulations as part of health care reform. Big business is warning that current proposals to give workers a stronger voice on the job -- the Employee Free Choice Act -- will hurt the nation's business climate and kill jobs. Multinational corporations are attacking President Obama's plan to close loopholes that allow multinational corporations and wealthy individuals to avoid paying taxes when they ship jobs overseas and hide profits in secret offshore accounts, warning that it will kill jobs and make American companies less competitive in the global economy.

The financial services industry has a successful track record of crying wolf. During the Clinton and Bush years, for example, bankers and other lenders lobbied to undo consumer-friendly regulations, arguing that it would unleash industry innovation and competition. The politicians complied. The result? Merger mania, widespread speculation, predatory lending, the current wave of foreclosures, the mortgage meltdown, and the global economic recession we're now mired in.

But like Pavlov's dog, when the bankers hear "regulation," they automatically respond: "bad for the economy" and "job killer."

So when President Obama announced his goal to bring the out-of-control credit card industry under some government regulation, the banks went on auto-pilot and started crying wolf. But this time, it didn't work. The politicians listened to public opinion instead of corporate propaganda.

And no wonder. According to the Washington Post, credit card debt has grown by 25 percent in the last decade. Americans pay $15 billion in penalty fees a year, accounting for about 10 percent of the industry's revenues. About one-fifth of those carrying credit card debt pay more than 20 percent in interest.

Specifically, the Senate bill would prohibit companies from raising interest rates within the first year. It would also bar companies from raising rates on existing balances unless a card holder was 60 days behind. If customers made payments on time for six months, companies would have to restore interest rates to the previous level. The companies would also have to notify consumers of any rate increases 45 days in advance.

Companies could not charge a late fee if they were late processing a payment. They would have to mail statements 21 days before a payment is due.

These are hardly onerous restrictions. But the banking industry -- perhaps feel giddy about wielding its political muscle in Washington, such as its recent success at blocking "cram-down" legislation to allow bankruptcy court judges to require lenders to renegotiate mortgages on homeowners facing foreclosure - overreached on the credit card issue. The credit industries' claims of a economic chaos rang hollow in the wake of real disaster wrought by a frenzy of deregulation and profiteering.

Lobbying their business-friendly allies in Congress to take up their cause, the bankers discovered that most of their reliable friends didn't want to be seen in public shilling for the credit card industry. Only four Senate Republicans -- Lamar Alexander of Tennessee, Robert Bennett of Utah, John Kyl of Arizona and John Thune of South Dakota -- opposed the bill. One Democrat, Tim Johnson of South Dakota -- where the credit card industry accounts for thousands of jobs -- joined them in drinking the industry Kool-Aid (and taken its campaign contributions) that making the industry responsible would somehow kill jobs. Even Senator Richard Shelby, conservative Alabama Republican, supported the bill.

Only a handful of House members, like Cong. Jeb Hensarling, a Texas Republican, took up the industry's cause.

"This bill will take us back to a previous era," Hensarling said, "a bygone era where everybody paid higher interest rates, where a third fewer people had access to credit, and we had all of these dreaded annual card fees."

Cong. Keith Ellison, a Minnesota Democratic, punched holes in Hensarling's crying-wolf argument.

"Don't believe that unless this Congress allows some credit card companies to abuse consumers, that no one will have credit," Ellison told the Denver Business Journal. "It is nothing but fear-based stuff that will allow credit card companies, that have made record profits, to continue to take advantage of American consumers."

Like all the other industries that cry wolf to prevent regulation that protects the public, the credit card companies will adjust to the new set of rules. They will provide credit for families and make reasonable profits. They just won't do it by driving families into unsustainable and unpredictable debt.

The politicians who called the credit card industry's bluff should apply the same standards to other business sectors. When corporate lobbyists and their hired-hand think-tank "experts" flood Congress with "studies" warning that government regulations to protect consumers, workers, and the environment will mean economic doomsday, elected officials should remember -- it's just a fairy tale.

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