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# Credit Card Costs Too High, CFA Says

Banks continue to increase the cost of credit to consumers using credit cards despite a 50 percent drop in interest rates that commercial borrowers and banks themselves pay for funds.

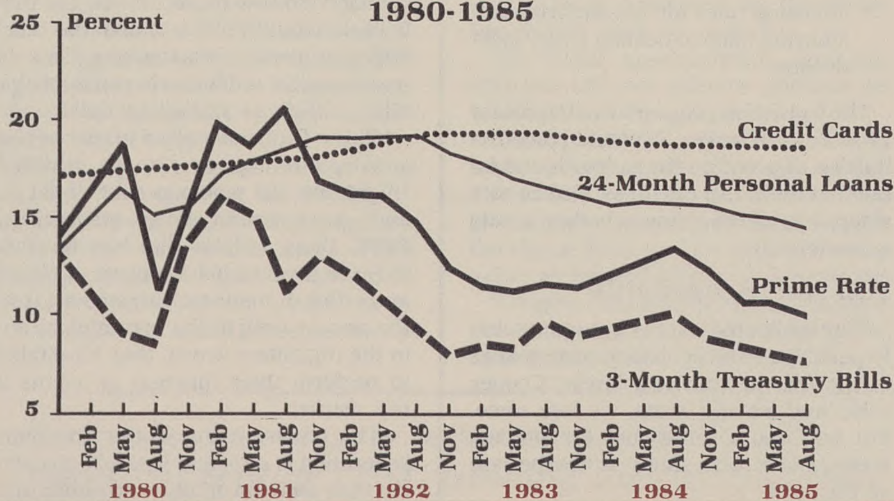
Consumers are now paying $6 billion a year in interest on bank credit cards such as Visa and Mastercard, in addition to card fees estimated at $2 to $3 billion a year, according to a report issued September 23 by CFA Legislative Representative Alan Fox. The report compared interest rates paid over the past five years by banks and corporate borrowers with the rates paid by the average consumer (see graph).

### Lenders Take Advantage

"There is no question that lenders are taking advantage of consumers' growing dependence on credit cards to charge excessive annual fees and interest rates without full competition or disclosure," Fox said.

> *"It is clear that consumers are paying hundreds of millions of dollars a year in excessive credit card interest charges."*

Since mid-1981, the report reveals, the prime interest rate has fallen from 20.5 percent to 9.5 percent, and the discount rate that banks pay on short-term borrowing from the Federal Reserve has plummeted from 14 percent to 7.5 percent. In the same period, credit card interest rates rose from an average of 17.8 percent to 18.6 percent.




CFA first reported the developing disparity between consumer and other interest rates in 1982, and called on the Fed to investigate whether consumers were being exploited.

"With three more years of evidence in, it is clear that consumers are paying hundreds of millions of dollars a year in excessive interest charges, on top of steadily increasing bank service fees, loan fees and credit card fees," the report concludes.

### Consumer Concern Grows

Growing consumer concern about credit card interest rates prompted two members of the U.S. House of Representatives to sponsor legislation limiting allowable interest rates.

H.R. 3408, introduced by Rep. Charles E. Schumer (D-NY), requires a Fed investigation of credit card interest rates. Unless the Fed determines that the rates reflect the cost of funds to creditors and a competitive market, rates would be capped at 6 points over the average rate of three-month Treasury bills, adjusted quarterly. Under current conditions, this would limit rates to about 13 percent.

Rep. Mario Biaggi (D-NY) has introduced H.R. 1197, which caps rates at 5 points above the discount rate. This bill would put the limit under current circumstances at 12.5 percent.

At a hearing on the bills before the Consumer Affairs Subcommittee of the House Banking Committee, Subcommittee Chairman Frank Annunzio (D-IL) called on consumers to "put their plastic in their pockets and leave it there until interest rates drop."

"If consumers feel that there is no legitimate basis for the high rates, they can solve the problem themselves and they can do it far quicker than Congress can pass legislation," he declared.

CFAnews photo by Allison Schuette

*CFA Legislative Representative Alan Fox, left, testifies on credit card interest rates before the Consumer Affairs Subcommittee of the House Banking Committee. Dr. Robert W. Johnson, director of the Credit Research Center at Purdue University, center, and David K. Hunt, right, executive vice president of the Bank of Virginia, also testified. Hunt represented the American Bankers Association.*

### Patience Wearing Thin

Testifying on behalf of CFA, Fox said "consumers tell us their patience is wearing thin. The token responses of a few banks are insufficient. It should not be page one news when a bank cuts its credit card interest rates."

Fox said interest rates are too high because true competition is lacking and information disclosed to consumers is inadequate. He attacked industry and Federal Reserve Board claims that the large number of banks offering credit cards means that competition is adequate.

"A large number of providers constitutes a necessary, but not a sufficient, condition for a competitive market," he said. "The disparity in information and power between the offeror of credit and the consumer makes a competitive market difficult to achieve."

Lack of meaningful competition increases credit card costs indirectly as well as directly, Fox said. "We believe that banks have not responded aggressively to bank card fraud and have accepted and solicited accounts with higher probabilities of default because they can pass these costs on to consumers without risking loss of business," he said.

### Calls For Improvements

Fox called for improvements in credit card disclosures, noting that consumers receive full disclosure only after they have received a card. Mail solicitations for credit card accounts include only the annual fee and the interest rate, and these are not stated clearly or conspicuously, he said.

Other important terms such as late charges and the method of calculating balances on which interest may be charged are not disclosed. He urged disclosure of all conditions that contribute to credit card costs as a requirement in all promotional material that includes an application for a card.

# Mark Your Calendar For CFA Conferences

A CFA conference will spotlight "The Consumer in the Financial Services Revolution" December 12 and 13 at the Washington Plaza Hotel in Washington, D.C. Its purpose is to bring together consumer advocates, industry representatives and government officials to explore current issues and consider options and solutions.

Also coming up is Consumer Assembly 1986. To be held on February 6 and 7, also at the Washington Plaza, its theme is "Deregulation of Markets: Consumer Impacts and Consumerist Responses."

For further information on either event, contact Sheila Meade at Consumer Federation of America, 1424 16th Street, N.W., Washington, D.C. 20036. The telephone number is (202) 387-6121.

# House to Act on CPSC Extension

An initial attempt to win House passage of a new three-year authorization for the Consumer Product Safety Commission (CPSC) was thwarted by the amusement park industry, but the bill likely will be back before the House in December.

The bill won majority support, 264 to 146, in a vote November 19, but the legislation has come to the floor under a procedure requiring a two-thirds majority for passage.

The bill is expected to be brought before the House again in December with only a simple majority needed for approval, but opponents will have an opportunity then to offer amendments that could weaken the measure.

The amusement park industry is opposed to the bill because it would partially restore regulatory authority stripped from the CPSC by Congress in the 1981 budget reconciliation legislation.

Compromise language now in the bill would allow CPSC to inspect rides in states that do not have inspection programs, and would require owners of fixed-site rides to report accidents caused by defective rides which result in death or serious injury. The Senate's version of the bill, approved earlier this year, does not include even this limited restoration.

The authorization bill also includes a freeze on personnel levels to bar further staff reductions, and increases in CPSC funding ceilings over the next three years. (Congress has been doling out money to CPSC on a year-to-year basis since the Commission's authorization expired. See related story on appropriations on page 3.)

The new authorization bill was approved overwhelmingly by the House Energy and Commerce Committee in early November. The bill represents a bipartisan compromise between supporters of a strong CPSC, led by Rep. Henry Waxman (D-CA), and those favoring restrictions on the agency. The compromise was worked out by the Health Subcommittee, chaired by Waxman. The full committee defeated a bid by Rep. William Dannemeyer (R-CA) to drop the amusement park provisions.

*"This bill only ensures the survival of this important agency. In the future, Congress must reverse the effects of five years of attacks on CPSC."*

The bill (H.R. 3456) authorizes continuation of the CPSC in FY 1986 through FY 1988. It authorizes funding of $37 million in 1986, and would allow increases of $1 million in each of the next two years. A Senate version of the bill extends CPSC for only two years and would freeze funding at $35 million. (Appropriation bills can provide funding up to, but not exceeding, authorization levels.)

The personnel freeze would reverse five years of reductions that have slashed CPSC staff more than 40 percent since 1980. In 1985, the agency had 582 full-time equivalent (FTE) positions. The House bill would allow a further cut to 568 FTEs in 1986, as proposed by the Administration, but would prohibit further cuts. The Senate version contains no staff provisions.

A conference committee would resolve differences between the two bills if the House acts favorably on the legislation. CFA and other consumer organizations urged Congress to adopt the bill, though calling it "barely adequate" in a letter to Energy and Commerce Committee members.

"The CPSC's ability to fulfill its responsibility to consumers has been threatened by budget and staff cuts of proportions far greater than those endured by any other health or safety agency," CFA Legislative Representative Alan Fox said. "This bill only ensures the survival of this important agency. In the future, Congress must reverse the effects of five years of attacks on the CPSC and ensure that is has all the resources it needs to protect consumers' health and safety."

# CFA Asks Congress to Compel ICC Restraint on Rail Rates

Consumer groups' efforts to convince Congress to force the Interstate Commerce Commission (ICC) to restrain the pervasive market power of railroads over the movement of heavy bulk commodities have intensified in oversight hearings before the Senate Commerce Committee.

A variety of groups, including consumers, electric utilities, large industrial shippers and agricultural interests, questioned the possibility of getting a fair hearing in the struggle over the ICC's implementation of the Staggers Rail Act of 1980.

"Consumers are deeply affected by the captive shipper provisions of the Staggers Act," Dr. Mark Cooper, CFA's energy director, told the committee, "because coal is the dominant source of power for generating electricity in this country and coal is the commodity over which railroads possess the greatest market power. The cost of acquiring coal, including transportation costs, is an expense for utilities that is passed directly through to consumers on their electric bills."

### Coalition Supports Changes

Cooper's testimony focused on a small number of changes in current ICC practices which are embodied in The Consumer Rail Equity Act (S. 477), supported by a broad coalition of consumer and industry groups.

"We are simply trying to get the ICC to apply the same accounting practices used by both public and private entities," Cooper said, "and the same administrative procedures used by virtually every other regulatory agency."

Cooper pointed out that the accounting changes are so simple and obvious that even committee members who are staunch supporters of the railroads have recognized they are needed.

The most important changes, which in the long run will save electricity consumers several billion dollars a year, are:

- not allowing the railroads a return on deferred taxes;
- examination of the rate base for investments that are used in the provision of transportation services;
- elimination of subsidization of competitive traffic;
- using the actual cost of debt in calculating the railroads' cost of capital; and
- adjusting rates for productivity and allowing them to decline when costs decline.

The legislation proposes two important procedural changes. It would place the burden of proof on the railroads and insist that the actual cost of service be considered in determining whether a rate is reasonable.

### ICC Not Reasonable

"The coalition's member groups regularly participate in regulatory proceedings at the federal and state levels," Cooper said, "and we win some, we lose some. But we have a sense that the process is reasonable. That simply is not the case at the ICC."

"The scales have been so weighted in favor of the railroads and the burden placed on complainants is so onerous that we despair of getting a fair hearing," Cooper said. "All we are asking Congress to do is ensure an equitable set of rules, applied by a reasonably impartial body. With those safeguards, we are willing to take our chances on the process."

## Credit Unions Keep Exemption

Consumers won a major victory in the House Ways and Means Committee with its rejection of a move to end credit unions' tax-exempt status.

CFA and national credit union associations had joined together to urge retention of the exemption. Retention was also urged by consumer-advocates on the House Banking Committee, led by Chairman Fernand St Gemain (D-RI).

In a letter to Ways and Means Chairman Dan Rostenkowski (D-IL), St Germain said, "credit unions have acted with the special purpose of providing convenient and low-cost financial services to low and moderate income individuals. The progress of this special purpose would be placed in jeopardy if credit unions were taxed."

Although the prospects for tax reform legislation remain uncertain, the committee decision ensures that changes in the tax status of credit unions will not be a part of any tax reform bill considered by the House of Representatives.

# CFA Supports FERC in Effort To Curb Costs of Natural Gas

A surprising alliance between consumer groups and the Federal Energy Regulatory Commission (FERC) continues to develop in Washington as FERC moves forward with its proposals to restructure the natural gas industry.

Although FERC delayed "block billing," a proposal that would give both residential and commercial users the benefit of low-cost "old" gas, consumers were supporting FERC's program of voluntary nondiscriminatory transportation of natural gas—and are up in arms at the refusal of most pipelines to participate.

"A new age is dawning in the natural gas industry, but the pipelines seem not to have gotten the message," Dr. Mark Cooper, CFA's energy director, said in testimony before the Senate Energy Committee November 21.

"Their almost lock-step refusal to participate in non-discriminatory transportation should attract the attention of the Department of Justice and the investigatory committees of the Congress," he continued. "Let the pipelines make no mistake about it. The consuming public intends to have open access to the transportation of natural gas."

*"A new age is dawning in the natural gas industry."*

Lining up in support of FERC, in addition to consumer groups, are a number of local distribution companies, industrial users of gas, and some independent producers. Major gas producers, however, are on the side of the pipelines.

Producer opposition to block billing was undercut by a study released by the Citizen/Labor Energy Coalition at hearings in the House of Representatives. The study showed that AMOCO, which has been complaining most about block billing, currently has the highest average cost for new gas and is being paid almost half a billion dollars more for its gas than it likely would receive under the block billing proposal. Estimates now place the total potential reduction in consumer gas bills as high as six billion dollars.

"This is fundamentally a matter of consumer sovereignty," Cooper testified. "Right now the pipelines control old gas and, given the regulatory structure at FERC, there is little that can be done to force them to behave in an equitable and efficient manner. Far removed from the people, both in the marketplace and in the regulatory arena, they have failed to perform their function as agents in the market.

"The underpinning of the Consumer Federation is state and local groups who cut their teeth on utilities and public utility commissions. Move the old gas cushion closer to the people and we will ensure that it is passed through to the rightful beneficiaries.

"Give local distribution companies the right to enter the market in search of lower-cost gas," Cooper concluded, "and we will ensure that this right is vigorously exercised in the consumer's interest."

# House Panel OKs Limit on Check 'Holds'

The House of Representatives is expected to act before the end of the year on a bill restricting the length of time banks and other financial institutions may hold deposited checks before they are available to consumers.

H.R. 2443, sponsored by House Banking Committee Chairman Fernand J. St Germain (D-RI) and 145 other members, was approved by the Banking Committee on November 20 by voice vote. The bill provides a three-year phase-in of check hold limits. During the transition period, holds of up to six business days for most out-of-state checks, and two days for local and in-state checks, would be permitted. Afterwards, hold periods would be limited to one to three business days.

## 'High Risk' Exceptions

Banks are allowed to invoke exceptions to these schedules for specific high risk situations, including new accounts, large checks, and accounts with a recent history of bounced checks. During the transition period, savings and loans and credit unions would be allowed an extra day. But next-day availability would be required for other checks, including government benefit checks and checks of under $100.

The Financial Institutions Subcommittee beat back several weakening amendments in a meeting on November 13, before reporting the bill to the full committee on a 23-6 vote. One key vote defeated an amendment sponsored by Rep. Chalmers Wylie (R-OH), which would have given the Federal Reserve Board the power to overturn any provision of the bill.

One subcommittee victory was later overturned by the full committee. The subcommittee adopted an amendment sponsored by Rep. Richard Lehman (D-CA) requiring crediting of interest on deposits made into interest-bearing accounts from the day of deposit. But under heavy pressure from banks, many of which had long claimed that day-of-deposit crediting is their normal practice, the full committee voted 28-21 to allow interest crediting up to two days after deposit.

*Rep. Fernand St Germain (D-RI)*

The full committee reported the bill after five hours of discussion and amendment. While the interest crediting provision was weakened, and several less controversial changes were approved, the basic provisions of the bill remained intact. One crucial amendment, which would have allowed financial institutions wide discretion to lengthen hold periods, was defeated 17-28. A proposal to sharply restrict the areas from which consumers could expect local or in-state availability was easily defeated by voice vote.

## Consumer Groups Testify

Four national consumer organizations—CFA, Consumers Union, Public Citizen's Congress Watch, and U.S. PIRG—testified at a Banking Committee hearing that long check hold periods cannot be justified by any need to protect banks against fraud. In fact, CFA Legislative Representative Alan Fox testified, long hold periods cost consumers millions of dollars a year.

CFAnews photo by Allison Schuette

*Consumer groups presented a united front at House Banking Committee hearing on legislation to restrict the time length of check holds. Members of the consumer panel are, from the left, Franci Livingston, staff attorney for Congress Watch; Alan Fox, CFA legislative representative; Michelle Meier, Consumers Union's counsel for government affairs, and Michael Caudell-Feagan, staff attorney for U.S. PIRG.*

Based on Federal Reserve Board and industry data, Fox estimated that consumers bounce 9.7 million checks a year because funds have been deposited but are not yet available. These bounced checks cost consumers $125 million a year in fees, plus untold millions of dollars in late fees and other charges assessed by utilities and other creditors to whom these checks are written.

Fox, Consumers Union Counsel Michelle Meier, Congress Watch Staff Attorney Franci Livingston, and U.S. PIRG Staff Attorney Michael Caudell-Feagan argued that long hold periods do little to protect banks from losses caused by bad checks. Livingston cited a U.S. League of Savings Institutions survey at one New York savings institution which found that only 1% of the checks returned for insufficient funds and other causes drawn on local institutions were returned in the seven-day hold period for local checks required by that institution.

"Banks don't need long hold periods to protect against fraud. Kiting schemes can be easily spotted by banks, and they can be and usually are prevented by technology available today. Banks are quite able to protect their own money," Fox said.

All four organizations hailed the committee's adoption of the bill and cited Chairman St Germain's leadership as crucial to the adoption of a strong, pro-consumer measure.

H.R. 2443, the Expedited Funds Availability Act of 1985, may be considered by the U.S. House of Representatives at any time. Write your U.S. Representative to urge support for a strong bill to provide consumers with access to their funds. Weakening amendments which lengthen hold periods, reduce enforcement, or give federal agencies the power to overturn provisions of the law should be opposed.

# Congress Approves Funds for Indoor Air, Radon Programs

Both houses of Congress approved funds for the Consumer Product Safety Commission (CPSC) and for indoor air quality programs at both the CPSC and the Environmental Protection Agency (EPA). The appropriation bill was signed by President Reagan.

The money was included in the Fiscal Year 1986 appropriation for the Department of Housing and Urban Development (HUD) and 17 independent agencies. A conference committee report resolving differences between the two houses was approved by the House and the Senate November 13.

> **"Congress has clearly rejected Administration efforts to reduce CPSC funding and to eliminate indoor air programs."**

The bill appropriates $36 million for CPSC operations in FY 1986, essentially splitting the difference between the $37 million voted by the House and the $34.9 million approved by the Senate. (Congress has been doling out money to CPSC on a year-to-year basis, but a three-year authorization bill is now being considered by the House. See related story on page 2.)

The CPSC appropriation earmarks $250,000 and two full-time positions for indoor air quality programs.

EPA was voted $2 million for indoor air research and coordination, and another $1.5 million for radon programs. These provisions match those in the Senate bill; the House had approved $2.5 million for indoor air but nothing for radon programs.

"Congress has clearly rejected Administration efforts to reduce CPSC funding and to eliminate indoor air programs," CFA Product Safety Director Mary Ellen Fise said. She noted that the Office of Management and Budget (OMB) had asked for only $33.7 million for CPSC operations in FY 1986 and wanted no funds at all for indoor air quality.

The $36 million Congress approved for CPSC matches the amount appropriated for FY 1985. EPA's $2 million for indoor air programs also is the same as the appropriation for last fiscal year, but the $1.5 million for radon programs is new this year.

"Five years of steady erosion in CPSC's ability to do its job appear to have ended this year," CFA legislative representative Alan Fox said. "Soon, we may be able to begin to reverse the damage and allow the commission the resources it needs to protect consumers from dangerous products and toxic substances in the home."

CFA has designated indoor air quality as its top priority health and safety issue in the 99th Congress. A quarterly newsletter, Indoor Air News, is now available free to those interested in legislative, regulatory and scientific developments relevant to indoor air quality.

To get on the mailing list for the newsletter, write Indoor Air News, Consumer Federation of America, 1424 16th Street, N.W., Washington, DC 20036. Send a stamped, self-addressed envelope to the same address if you would like copies of the first two issues of the newsletter distributed earlier.

**CFAnews**

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# Oil Import Fees Sap Economy, CFA Warns

A $10-per-barrel fee on oil imported into the U.S. could cause the loss of 500,000 jobs, raise inflation 1 to 2 percent, and reduce GNP growth by 1 percent, CFA Energy Director Dr. Mark Cooper told Congressional staff members at a late October briefing.

Cooper was reporting the results of a CFA study examining current proposals to impose the $10 a barrel fee. Cooper was author of the report entitled "The Economic, Energy and Tax Effects of an Oil Import Fee."

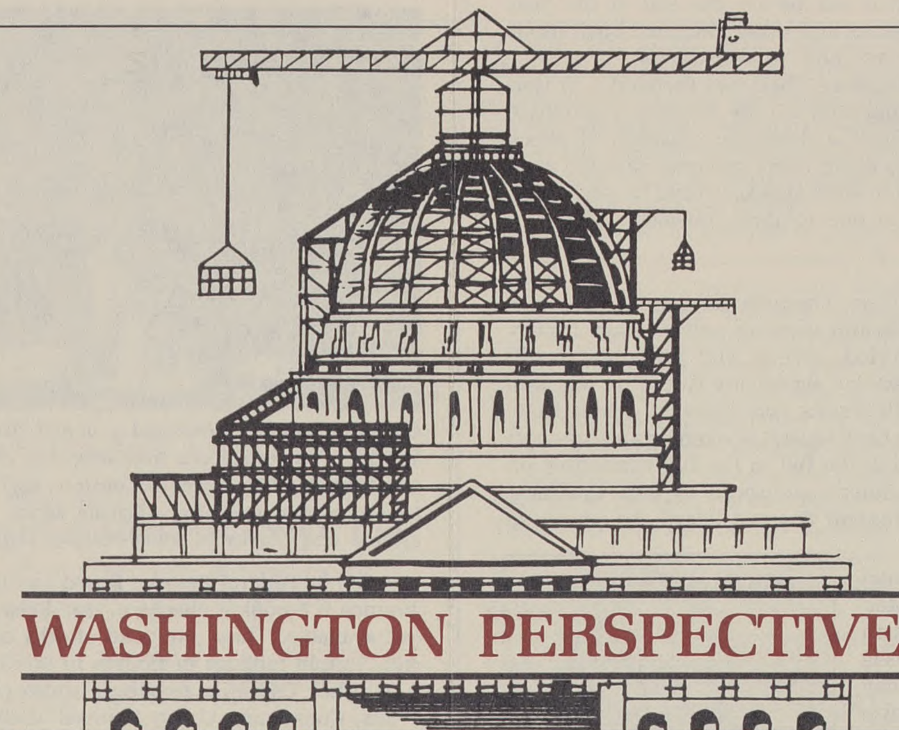
### Oil Industry Bailout

"Proposals to impose oil import fees are thinly disguised efforts to bail out the oil and gas industry," Cooper said. "About 45 cents of every dollar that the fee boosts energy prices would end up as after-tax profits for oil and gas producers."

"For many in the industry, the market seems to be a one-way elevator—going up but not down. On the way up, they wrap themselves in the flag of free enterprise to ensure that no one will stop the rise; on the way down they wrap themselves in the flag of national security to slow the fall, but the goal is always the same: to get the highest price possible."

### Import Fee 'Inefficient and Inequitable'

The import fee also would be both "inefficient and inequitable" as a revenue raiser, Cooper said. The CFA report points out that net revenue increases are projected to be less than 50 cents for every dollar increase in energy prices.




"The poorest 40 percent of households —those with incomes below $20,000— would pay twice as much under the fee system as they would if the same amount of money were to be raised from income taxes," Cooper said.

The report also states that import fees would be an extremely expensive form of energy policy. While a $10 fee could reduce imports by 1.5 million barrels, the report concludes that equivalent energy security benefits could be achieved at less than half the cost through programs such as direct energy conservation programs and expansion of the Strategic Petroleum Reserve.

### 1960s Restrictions 'Do Little Good'

"We had import restrictions during the 1960s and they did us little good," said Cooper. "They accelerated the depletion of American resources and cost consumers a great deal of money. An import fee in the 1980s would do exactly the same damage. About 80 percent of the oil wells drilled in the non-communist world are drilled in this country, but 85 percent of the free world's oil is located outside the U.S. An import fee would simply reinforce the tendency to look for oil in the wrong places."

The study notes that the U.S. has successfully diversified its sources of supply, with Arab OPEC imports declining from a peak of 3.2 million barrels a day in the 1970s to less than .5 million barrels a day this year.

"Diversified sources of supply coupled with the good sense to continue to stockpile oil and encourage conservation are a much better approach to energy security than raising prices artificially through an import fee," Cooper concluded.

John R. Stevens, of Boston Edison, and Charles Burkhardt of the New England Fuel Institute, also appeared at the Capitol Hill briefing, which was sponsored by the New England Congressional Caucus.

# 'Beer Bill' Would Put Head on Wholesalers' Profits

In early November, the Senate Judiciary Committe reported out S. 412, the Malt Beverage Interbrand Competition Act. Although the "beer bill" will probably not receive Senate approval by the end of the year, this special interest, anti-competition legislation has never before been voted out of committee.

Passage of the bill would provide beer wholesalers throughout the country with exclusive territorial distribution of particular brands. The result would be that all retailers in a given metropolitan area would be forced to purchase a brand from a single wholesaler.

At present, states have the ability to confer this territorial exclusivity. Several already have, with the result that beer prices have risen by as much as 30 percent.

> *"We are pitted against a determined special interest group with only one legislative priority."*

More important, however, enactment of the "beer bill" would encourage other industries to seek their own antitrust exemptions. "At best," explained CFA Executive Director Stephen Brobeck, "this would subject Congress to additional special interest campaigns, diverting attention from more pressing issues. At worst, if several such campaigns were to succeed, competition would be significantly reduced in U.S. markets."

This legislation was first introduced in both the Senate and House back in 1981. At that time, a public outcry led by newpaper editorialists and public interest organizations succeeded in bottling up the bills.

Today, a broad array of organizations oppose this legislation—not only consumer groups, but also food retailers and even the Federal Trade Commission and the U.S. Department of Justice. Noted Brobeck, "We are pitted against a determined special interest group, with only one legislative priority, which is using campaign contributions and other means to persuade Congressmen to reluctantly support legislation with no redeeming social value."

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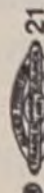

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