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.

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 borrow-

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 percent 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 6 points over the average rate of three-month Treasury bills. Under current conditions, this would limit rates to about 13 percent.

Fox called for improvements in credit card disclosures, noting that consumers receive full disclosure only after they have received a card. "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

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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

A
n initial attempt to win House pas-
sage of a three-year extension of the
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 pro-
cedure 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 op-
posed to the bill because it would partial-
ly restore regulatory authority stripped
from the CPSC by Congress in the 1981 budget reconciliation.

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

The bill also includes a freeze on personnel levels to bar further staff reductions, and increases in CPSC funding on egress over the next three years.

(Congress has been doling out money to CPSC on a year-to-year basis, and the Commission's authorization expired. See related story on appropriations on page 3.)

The new authorization bill was ap-
proved overwhelmingly by the House Energy and Commerce Committee in early November. The bill represents a biparti-
san compromise between supporters of a strong CPSC, led by Rep. Henry Wax-
man (D-CA), and those favoring restric-
tions on the agency. The compromise was
worked out by the Health Subcommittee, chaired by Waxman. The full committee defeated a bid by Rep. William Dannem-
eyer (R-CA) to drop the amusement park provisions.

The bill (H.R. 3456) authorizes continua-
tion of the CPSC in FY 1986 through FY
1988. It authorizes funding of $37 million in 1986, and would allow increases of $4 million each of the next two years. A Senate version of the bill extends CPSC for only two years and would freeze fund-
ing at $35 million. (Appropriation bills can provide funding up to, but not ex-
ceeding, authorization levels.)

The personnel freeze would reverse five years of reductions that have put 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 Administra-
tion, 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 does not, undoing 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 respon-
sibility to consumers has been threate-
ned by budget cuts, and the agency has
been forced to struggle on a shoestring budget. The bill seeks to reverse the trend," the letter said. "We urge the House to pass the bill as is."
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-Rhode Island) 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 seven 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.

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.

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 Prod-
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 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 Committee 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 newspaper editorialists and public interest organizations succeeded in holding 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."