Politics

Credit card reform adds protections, could raise rates

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The House on Thursday passed sweeping credit card reform legislation that is aimed at protecting consumers but which some critics say could end up raising everyone's interest rates and limiting overall credit availability.

Rep. Carolyn Maloney, D-N.Y., sponsored the House's credit card reform bill.

The bill, which passed 357-70, takes away many of the tools used by companies to regulate the credit they issue, but which have vexed many consumers over the years. Some of those tactics banned in the House bill include immediate interest rate increases based on a change in a cardholder's overall credit profile and charging interest on more than one billing cycle.

The bill also imposes stricter disclosure requirements by credit card companies and even orders them to print their contracts in larger type. A 45-day notice would be required for any interest rate increase, and consumers would be shielded from fees for going over their credit limits.

"Today the American consumer can see what a Democratic Congress and a Democratic president can do for their lives," said Rep. Carolyn Maloney, D-N.Y., the bill's sponsor. "We can stop these abusive practices. They are unfair, deceptive and anti-competitive."

The bill, which stalled in the Senate last year, faces a much better chance of becoming law this year because President Barack Obama has labeled it a priority, and polls show the public is clamoring for credit card reform.

Public anger at the credit card companies has made the legislation tough to resist even for Republicans who fear its possible negative effect in the credit markets and the small businesses that rely on them most heavily.

Rep. Jeb Hensarling, R-Texas, led the floor fight against the bill Thursday. Hensarling said the bill would make it harder for credit card companies to utilize risk-based pricing, which would force them to raise rates even for those who pay their bills on time.

“Why should they be punished with higher interest rates, why do they have to be homogenized?” Hensarling asked. “This will force those who pay their bill on time to somehow subsidize those who don’t.”

Mark Calabria, director of financial services policy at the Cato Institute, a libertarian think tank, said the bill could have a chilling effect on the credit markets.

“The credit card companies are going to just pull back on who gets credit cards going forward, and even for those who do give out credit there is going to be a pullback from trying to separate out the good risks from the bad,” Calabria said.

The House bill is likely to be softened in the Senate, where there is less enthusiasm for regulating the financial sector. Senate Majority Leader Harry Reid acknowledged Thursday a Senate version of the credit card reform bill could be blocked by Republicans when he brings it to the floor for a vote next week.

Such a move would force the two parties to agree on a modified bill.