Los Angeles Times

Bill would limit loan, credit card rates

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March 15, 2009

Since the beginning of the year, millions of credit card customers have been hit with higher interest rates -- in many cases from lenders that have received billions of dollars in bailout cash from taxpayers.

Sen. Bernie Sanders, a Vermont independent, responded last week with legislation that would impose a 15% cap on rates for all consumer loans, including plastic.

And you know what? It just might work.

That's because Sanders' bill would trump a 1978 Supreme Court ruling that allowed banks to set credit card rates at whatever their home state allowed. Banks, in turn, high-tailed it to places like South Dakota and Delaware, which abandoned their usury laws to entice financial institutions into setting up shop.

"Every state would have to honor a federal rate cap of 15%," Sanders told me. "It would be a national usury law."

He called after reading columns in which I detailed how Capital One Financial Corp. is raising many cardholders' rates to nearly 18% -- even for people who pay their bills on time and haven't missed any payments.

Meanwhile, Citigroup Inc. has told cardholders their rates could soar to almost 30% if a single payment is missed, and JPMorgan Chase & Co. said it would start charging a $10 monthly fee to those who have carried large balances for more than a couple of years.

Bank of America Corp., Wells Fargo & Co. and American Express Co. are among other major lenders that have notified customers recently of rate increases.

"Everyone has been focusing on the subprime mortgage mess," Sanders said. "I think it's time to focus on these absurd interest rates as well."

Credit card defaults are rising and could hit a record 10% this year. One reason is that so many people got much deeper into debt than they should have.

Another is card issuers keep turning the screws on existing customers -- those with balances they can't just walk away from -- in hopes of raising cash to cover the industry's bad bets in the housing market.

Sanders noted that federally chartered credit unions were limited for years to charging no more than 15% on loans. The National Credit Union Administration raised that cap to 18% in 1987.

"If a rate cap has worked for credit unions all these years, it could work for our friends in the financial industry as well," Sanders said.

Chris Collver, legislative and regulatory analyst for the California Credit Union League, agreed that a rate cap hasn't hurt business for the nearly 400 credit unions represented by his organization.

"It hasn't been an issue," he said. "Credit unions are still able to thrive."

I pointed out to Sanders, who spent more than a decade on the House Financial Services Committee before joining the Senate in 2006, that the banking industry would throw every lobbyist at its disposal toward fighting his bill.

"Obviously this is a pretty radical act, and it will be fought," he replied. "But I think the American people are disgusted with the financial industry. They want change."

You could argue that an interest rate of 15% or 18% is more than enough to accommodate any amount of risk on the lender's part. If a loan appears riskier than that, don't make it.

"What we have to ask as a nation is whether it's ethical to charge people 30% interest rates," Sanders said. "This is loan sharking. Let's call it what it is."

Phone fees

Are you one of millions of people who pay a fee every month for an unlisted number? State Sen. Fran Pavley (D-Agoura Hills) has introduced a bill -- SB 437 -- that would amend California's Public Utilities Code to prohibit phone companies from charging to keep people out of the phone book.

Former state Sen. Sheila Kuehl had introduced similar legislation last year, but it died on the vine.

Pavley's bill addresses a simple matter of fairness, halting the practice of phone companies charging for a service they *don't* provide -- that is, not publishing customers' numbers in a directory. Such charges can run as high as $1.99 a month.

Pavley told me she could understand a one-time fee to remove someone's name from a directory database. "But I don't see any reason why they have to keep charging you this fee on a monthly basis."

Nor do I. And speaking of phone fees, I wrote last Sunday about a study from the Utility Consumers' Action Network showing that the average cellphone customer pays more than $3 per minute for wireless service.

I've since learned that UCAN was wrong when it said the finding was based on a survey of more than 700 San Diego customers' bills.

The actual sample was 134 wireless bills from UCAN members. However, TeleTruth, the auditing firm that conducted the survey, stood behind its findings and methodology, and insisted that the results were still representative of the broader market.

I heard from enough wireless customers who *weren't* part of the UCAN study to believe that whatever the average cost per minute may be, it's still a whole lot higher than what most people think is fair.

Kind of like that unlisted-number fee.

David Lazarus' column runs Wednesdays and Sundays. Send your tips or feedback to david.lazarus@latimes.com.