



Senator Feinstein Introduces Legislation to Educate
Credit Card Holders About Minimum Payments Trap
May 16, 2005

Washington, DC – U.S. Senator Dianne Feinstein (D-Calif.) introduced legislation today to educate credit card holders about the impact of making only minimum monthly payments on credit card debt.

“The credit card debt problem facing our nation is significant,” Senator Feinstein said. **“Individuals get six, seven, or eight different credit cards, pay only the minimum payment required, and many end up trapped in debt. That happens in case after case. I believe that this bill is an important step in providing individuals with the information needed to act responsibly, and it does so with a minimal burden on the industry.”**

Since 1990, the debt that Americans carry on credit cards has more than tripled, going from approximately \$238 billion in 1990 to \$755 billion in 2004. As a result, the average American household now has about \$7,300 of credit card debt.

If the average household with \$7,300 of credit card debt and the average interest rate, which stood at 16.75% in April, makes only the 2% minimum payment every month, it will take them 44 years and \$23,373.90 to pay off their credit card debt, assuming they do not spend another cent on their credit cards. The family will need to pay over \$16,000 in interest to repay just \$7,300 of principal.

Senator Feinstein’s legislation would require credit card companies to add two items to each consumer’s monthly credit card statement:

1. A notice warning credit card holders that making only the minimum payment each month will increase the amount of interest they pay and the amount of time it takes to repay their debt; and
2. Examples of the amount of time and money required to repay a credit card debt if only minimum payments are made, or, if an individual consumer makes only minimum payments for six consecutive months, credit card companies would be required to list the exact amount of time and money necessary to repay the individual’s specific credit card debt, under the terms of their credit card agreement.

The bill would also require that a toll-free number be included on statements that consumers can call to get an estimate of the time and money required to repay their balance, if only minimum payments are made.

And, if the consumer makes only minimum payments for six consecutive months, the consumer will receive a toll-free number to an accredited credit counseling service. The disclosure requirements in the bill would only apply if the consumer has a minimum payment that is less than 10% of the debt on the credit card, or if their balance is greater than \$500.

“I have people close to me I have watched, with six or seven credit cards,” Senator Feinstein said. **“It is impossible for them, over the next 10 or 15 years, to pay off the debt if they continue making just minimum payments. The credit card industry is the most profitable sector of banking, and last year it made \$30 billion in profits. I don’t think they should have any trouble implementing the requirements of this bill.”**

The bill is modeled on a California law, the “California Credit Card Payment Warning Act,” passed in 2001. The law was struck down in 2002 in U.S. District Court as being preempted by the 1968 Truth in Lending Act. The Truth in Lending Act was enacted in part because Congress found that, “The informed use of credit results from an awareness of the cost thereof by consumers.”

Senator Feinstein’s bill would amend the Truth in Lending Act to ensure that consumers would be provided additional information about the effect of making minimum monthly payments.

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