Latest Card Bill Destructive to Industry, Users

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By Eric Grover

Congress continues its venomous assault on the credit card industry heedless of the consequences.

The Credit Card Accountability, Responsibility and Disclosure Act signed in May curbed administrative, finance and penalty fees and destroyed the subprime credit card industry. Rep. John Tierney, D-Mass., with 66 Democratic co-sponsors, fired the latest salvo on Dec. 11, introducing the preposterously named and economically illiterate "Restoring America's Commitment to Consumers Act of 2009." It would cap credit card finance and administrative fees at 16% and penalty fees at $15.

Rep. Louise Slaughter, D-N.Y., a co-sponsor and chairman of the House Rules Committee, asserted that the bill would "help Americans." To the contrary, it would harm consumers, merchants, the credit card industry and the anemic economic recovery.

Credit cards supply secure payments, rewards and a flexible option to draw down credit. Consumers and merchants take for granted their enormous utility and convenience.

When card companies are free to price as they see fit, credit cards and revolving credit can be provided to the overwhelming majority of Americans. Price controls would dramatically reduce available revolving credit and credit card choice, particularly for those Rep. Tierney and his paternalist kin profess to be concerned about: average and less-affluent consumers.

That said, Americans across the credit spectrum would be affected, from prime borrowers to the nearly 40% of adults who are subprime or have no or only thin credit histories.

With a 16% rate ceiling, revolving-credit demand would grow. Supply, however, would dry up. Two years ago almost $6 trillion was outstanding in revolving credit lines. Roughly $1.5 trillion has been eliminated by the financial crisis and the Credit CARD Act's curbs on fees. Several trillion dollars more would likely be destroyed. Tens of millions of consumers would be left in the lurch. Econ 101, Mr. Tierney.

Retailers struggling through the Great Recession would be further battered. They rely on often richly priced proprietary credit card and loyalty programs, as well as on general-purpose Amex, Discover, MasterCard and Visa credit cards — many of which would become illegal — to spur sales.

Until the downturn, credit cards were a mainstay of retail bank profitability. Interest and penalty fees generated 65% and 7% of credit card issuer revenue, respectively. Tierney's bill would put a hatchet to them and consequently stifle innovation, use and the supply of revolving credit.

Some, however, would benefit. Revolving-credit shortages would drive consumers to more expensive and less flexible sources of credit such as payday lenders, where the effective annual percentage rates can run to several hundred percent, and to the black market.

And statist politicians railing against the credit card industry would seize the opportunity to demand more regulation and government credit to address the shortage they themselves created.

Rep. Slaughter declared 30% credit card rates "criminal." Her economically malignant and anti-consumer bill would make it so. The fiercely competitive credit card market matches rates and features with consumer risk and appetites. If rates are disclosed, Jane Doe is willing to pay them, and a card company is willing to extend credit, what's the problem? Legislation like Tierney's bill and regulatory diktats are, bit by bit, infantilizing Americans who once upon a time were assumed to be self-reliant, sovereign and free to manage their affairs by their own compasses. Tierney believes the average American should not be free and cannot be trusted to accept (or reject) credit card pricing.

Consumers, retailers, the credit card industry and the economy at large would all be hurt by further politicization and government control of credit cards.

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