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Memo

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Date: September 22, 2008

To: Members of the U.S. House of Representatives

From: Floyd E. Stoner, Executive Vice President, Congressional Relations & Public Policy

RE: Opposition to H.R. 5244, the Credit Cardholders' Bill of Rights Act

On behalf of the American Bankers Association (ABA), I am writing to you to convey our strong opposition to the Credit Cardholders' Bill of Rights Act of 2008 (H.R. 5244), to be considered on the House floor this week. The bill imposes severe restrictions on the credit card market at exactly the wrong time in our economic cycle and will have significant adverse and unintended consequences for consumers, small businesses, and the U.S. economy. We urge you to vote against this legislation.

Higher Costs to Consumers and Small Businesses: As drafted, the bill will increase costs and reduce access to credit for millions of Americans while eliminating low-rate credit options that will hurt individuals and small businesses alike. It does so by, among other things, limiting the ability of card companies to manage risk, as well as by dictating the terms under which credit card loans must be repaid. These requirements will force card companies to increase the cost of credit to all consumers to compensate for the added risk, and to eliminate attractive low-cost offers because they will no longer be able to generate a reasonable rate of return. In sum, Americans will be paying more for their credit cards and have less access to low cost alternatives, such as zero-percent balance transfer offers. Millions of small businesses that rely on personal credit cards to assist in their operations will likewise be hurt.

Increased Turmoil in the Marketplace: Importantly, passage of H.R. 5244 may also exacerbate liquidity concerns in the marketplace, making it harder for card companies to borrow money that they can, in turn, lend to everyday consumers. Investors in asset-backed securities – which are responsible for funding over 50 percent of all credit card loans made by banks and thrifts and total in the *hundreds of billions of dollars* – are likely to view H.R. 5244 as placing their returns on these securities in peril because it limits the ability of banks to price for risk. This could cause a serious contraction in that marketplace as investors shy away from buying these securities, forcing card companies to pull back significantly on their lending. This contraction of credit would be in direct conflict with efforts by the Treasury Department and the Federal Reserve Board to increase access to capital in the marketplace, and it is exactly what our economy does not need at this juncture. A

similar effect occurred with respect to the student loan marketplace, and we would urge you to recognize that such a result could likewise occur here.

Legislation Unnecessary Due to Pending Regulations: As Congress is aware, the Federal Reserve Board, along with the Office of Thrift Supervision and the National Credit Union Administration, are currently working – at Congress’ direction – on comprehensive regulations which will address consumer concerns over credit card practices while minimizing the potential unintended consequences to individuals, small businesses, and our nation’s economy. Those regulations are expected to be out in final form before the end of this year. We would urge Congress to refrain from passing legislation and give regulators the chance to find the correct balance that protects consumers while minimizing negative consequences for consumers.

Consumers and businesses have greatly benefitted from the enormous convenience, security, and flexibility of credit cards, and this is especially important in today’s highly volatile economy. H.R. 5244 will disrupt a source of credit relied upon by people of all walks of life at the worst possible time. It will significantly harm consumers, businesses, and the broader U.S. economy. We urge you to oppose this legislation. Thank you for considering our views.