
WORKING PAPER SERIES

**COMMENTARY: CREDIT CARD
'LOAN SHARKING'**

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COMMENTARY: CREDIT CARD 'LOAN SHARKING'

The Count lived in the neighborhood where I grew up. No, I didn't grow up as part of the landed aristocracy, and the Count I'm talking about didn't either. Far from it. We lived in a working-class neighborhood, and "The Count" earned his name by loaning money to those who came to him for help. Let's get it straight from the start; the Count was neither charitable nor noble. He was a loan shark.

People in the neighborhood who were down-and-out had no alternative to the Count, whose talent was counting money. When the bill collectors started beating at their door, they'd turn to the Count, who'd lend them money at exorbitant interest rates. It was clear and simple. There was no fine print. If you didn't pay him back on time, the chances were good that you'd end up with a broken body part. Or worse. As for calling the police ... forgetaboutit!

Yeah, back in the days of my youth loan sharking was illegal. But times change. Just look at the recent congressional action on bankruptcy reform and you'll know what I mean.

The credit card companies did something old-time loan sharks like the Count would never do. *They went to the authorities for help.*

I can't imagine the Count going to the authorities for anything. It never would've happened. But after contributing hundreds of thousands of dollars to the Bush presidential election campaign and to their many friends in Congress, the banks and credit card

companies wanted a return on their investment. So they went to the government and helped write the bankruptcy reform law.

Look what they got:

First, credit card companies can charge exorbitant interest rates, reaching as high as 36 percent. That's 36 percent on the total, not on the unpaid balance. So, if I owe \$1,000 and pay \$990, I'm charged 36 percent interest on the full \$1,000, not on the outstanding \$10 I owe. This isn't too different from how the old neighborhood loan shark handled interest rates.

In Congress an amendment to cap the interest rate at 30 percent was proposed, but that was defeated. I guess 30 percent interest isn't enough for the credit card companies.

Second, traditional loan sharks took a low-profile approach. They didn't stuff people's mailboxes with ads to take out a loan. Check your mail. I know every week my mail includes several new credit cards that some company will activate if I just take the time and trouble to make a phone call.

How many offers of credit do you get every week? Think about it. The Count was more responsible doling out credit than today's credit card companies. What does that tell us?

The new law does nothing to curb the irresponsible excesses of the credit card companies. Unlike the Count, these lenders will continue to tempt us day after day.

So what happens if we overextend our credit and can't pay?

What happens if we behave as irresponsibly as the credit card companies propose? Or more likely, what happens if we get sick? Some 700,000 families are forced into bankruptcy annually because of medical problems. What happens to them?

In the old days the Count might give you a temporary pass on the debt if you took ill. Sure, he'd make you'd pay more in the long run, but you had a chance to pay it back. Your worst-case scenario was to pay more interest and perhaps suffer a broken body part. Not a pretty picture. As I said, the Count was not a nice guy. But your family at least kept the roof over their heads.

No more. Credit card companies are not as generous or understanding as the neighborhood loan shark. Should you go bankrupt

your creditors may seize your home. Not everyone thought this was fair. Senator Feingold, a Democrat from Wisconsin, even introduced an amendment to protect homes up to a moderate \$75,000, but his amendment was defeated. So watch it, if you get sick and can't pay your bills, Congress has instituted a Dickensian solution for you and your family. If

you can't pay they'll allow the credit card companies to take away your house and throw you out into the streets.

Such is the nature of reform in today's America. But there's more.

This 500-page reform bill flew through Congress like a Kansas tornado, and its implications are likely to devastate millions of hard-working Americans.

It protects the credit card companies by making families pay more to creditors. Reform also makes it more expensive and more difficult—some even say trickier—to file for bankruptcy, and it makes it harder to repay debts by raising the minimum payments in repayment programs.

Bankruptcy reform doesn't hurt all consumers. It goes to great lengths to protect the rich, who can hide their millions through special exemptions or other loopholes written just for them.

The law took no steps, of course, to address the growing tendency of many large companies—think most recently of United Airlines and Enron—to abuse the public trust and file bankruptcy to sidestep their pension obligations. High-paid CEOs still walk away with their pockets full of gold, while thousands of their loyal workers are left behind with no job, no pension, and little or no hope.

The pigs are at the trough. Last year the credit card industry made more than \$30 billion in profits. Their Count-like interest rates guaranteed them profits even if everyone couldn't always pay. But that wasn't enough. With the so-called reform laws on their side, the credit card companies now have the authority and the power to do what the old loan sharks never imagined. If the Count were still alive, I wonder what he'd say about this strange turn of events. Perhaps he'd ask if debtors' prisons are next.

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