Statement of the Honorable Louise M. Slaughter
Before the House Committee on Financial Services
Subcommittee on Financial Institutions and Consumer Credit

"An Examination of the Federal Reserve's Final Rule on the CARD Act's 'Ability to Repay' Requirement "
June 6, 2012

Madame Chairwoman, I thank you for the opportunity to submit my statement for the record for this important hearing on federal "ability to pay" standards for credit cards. I would also like to thank the Ranking Member of the Subcommittee, Congresswoman Maloney, for working with me to address our concerns that recent federal regulations are going against Congressional intent of the Credit CARD Act (P.L. 111-24) , which was to have a separate "ability to repay" standard for traditional college-aged consumers under 21 years of age. I am grateful for the opportunity to clarify the congressional intent of the young consumer provision of the Credit CARD Act (Sec. 301 of P.L. 111-24) and to work towards eliminating the unintended consequences of the subsequent federal regulations.

Since 1999, I had worked on the "College Student Credit Card Protection Act", along with my good friend Representative John "Jimmy" Duncan, Jr. Our goal with this legislation was to protect college students from entering into credit card agreements they could not afford. In recent years, too many college students have been forced to drop out of school because of credit card debt, and there have been tragic stories of students taking their lives due to the insurmountable student debt. In the face of these terrible events, I decided to take action to halt credit card companies from luring college students into credit card agreements they couldn't afford. My legislation would have set specific underwriting standards for college student credit cards, including limiting credit lines to the greater of 20 percent of a students' annual income or $500 without a co-signer, requiring parental approval to increase credit lines for jointly-liable accounts and require creditors to obtain a proof of income, income history, and credit history from college students before approving credit applications.

From the 106th to the 110th Congress, I introduced this legislation. In April 2009 of the 111th Congress, I offered the College Student Credit Card Protection Act as an amendment to Representative Maloney's Credit Cardholder Bill of Rights, now known as the Credit CARD Act, and it was adopted by a vote of 276-154. When the bill went to the Senate, the language was changed to what we see today in Sec. 301 of the law, requiring under Sec. 127 of the Truth in Lending Act (TILA) that all consumers under the age of 21 prove they have the "independent" ability to repay to obtain a credit card without a cosigner, and that federal regulators promulgate rules to set those "ability to repay" standards.

I regret that this change was made, and believe that the failure to apply clear limits is what led to the undeserved denial of independent lines of credit to responsible adults. Furthermore, this has

left our youngest and most vulnerable consumers – college students – unprotected, and that is a shame. While I agree that students should not be able to obtain a credit card based on household income they cannot access, my legislation's provisions requiring creditors to obtain a proof of income, income history, and credit history from college students before approving credit applications will properly addressed this concern without unintended consequences. It is imperative that the CFPB and Congress refocus the regulations on the real problem - college students are falling into devastating debt due to aggressive and predatory credit card companies.

We must act now to address the injustice of credit card companies profiting off of the demise of our nation's college students. What's more, colleges and financial institutions have also been entering into debit card agreements that take advantage of college students who are simply trying to access their bank accounts and financial aid. It is long past time for Members of Congress and federal regulators to protect college students from the abuses of the financial industry. For that reason, I intend to address specific underwriting standards for college student credit cards once again during this session of Congress.

The crux of today's hearing is that the Federal Reserve's interpretation of the statute ignored the Congressional intent for two separate standards: one for young, traditionally college-aged consumers in Sec. 127 of the Truth in Lending Act (TILA), and one for everyone else in Sec. 150 of TILA. The Consumer Financial Protection Bureau (CFPB) has the opportunity to go back to the drawing board and rewrite the young consumer regulations required in the CARD Act to properly and effectively protect college students from predatory credit card solicitations, as well as to allow stay-at-home spouses the ability to obtain a credit card of their own by citing their household income on a credit card application, as they once were able to do. In fact, a January 24, 2012 letter from CFPB Director Cordray, in response to a letter from myself, Congresswoman Maloney, and 23 bipartisan colleagues in the House requesting a review of these regulations, stated that the Bureau was conducting such a review of the effects on consumers. I appreciate Director Cordray's attention to this matter and look forward to an expedient response.

In closing, let me reiterate that my efforts to protect college students from falling into suffocating credit card debt have been taken beyond the original context to undeservedly limit stay-at-home spouses' access to an independent line of credit. This regulation is a change in status quo that was not intended by Congress and that could strip away the financial freedoms of all consumers, especially those that women have fought so hard for throughout the years. This is of particular concern to me in situations where domestic violence may be causing a woman to seek her independence, which she cannot do financially without an independent credit history. It is imperative that the federal regulators re-examine the congressional intent behind the separate ability to pay standards in Sec. 127(8) and Sec. 150 of TILA and take the necessary actions to remedy the negative unintended consequences of existing regulations.

Thank you once again, for the opportunity to address “ability to pay” standards, and the need to correctly interpret Congressional intent when it comes to the aforementioned legislation. I look forward to continuing to work with Congresswoman Capito and Congresswoman Maloney to address these concerns, and to work with the CFPB to find a reasonable and responsible solution to the matter.