American loan sharks

Twenty-five years ago, the banking industry successfully eliminated a critical restriction: the limit on the interest rate a lender can charge a borrower (" Do You Know What You"). These restrictions were known as usury laws. These laws were in effect for centuries prior to the 20th century (Geisst 2). Usury laws were established to protect the borrower from predatory behavior (Geisst 3). " Prior to the 20th century, charging interest on loans was considered heresy by the church. Anyone caught charging excessive interest was excommunicated and often punished" (Geisst 3). Banks fought for restrictions to be lifted arguing the usury laws were standing in the way of progress (" Do You Know What You"). Banks won the battle over consumers.

The deregulation of the usury laws occurred in the early 1980's and created a whole new invention, the unsecured credit card. Past generations believed deeply in hard work, saving money and living within ones means. They lived by the phrase, a penny saved is a penny earned. In order to lure the public into using unsecured credit cards without regrets, the banking industry needed a marketing plan intended to change those core values of Americans. The bankers yearned for future profits from interest charges. Politicians were involved as well, not necessarily for the card usage, but they needed a boost in consumer consumption to fuel the economy.

In order to absolve these thoughts Dr. Robert Manning, a professor at the Rochester Institute of Technology points out, " Banks had a multi-billion dollar mass marketing strategy that led to the Nike ' Just Do It' consumption. The effort was to get the new generation to reject those old school values" (Telvick). The banking industry also needed to change the stigma to using

charge cards, naming them credit cards. When consumers hear the word credit, they have a tendency to think free money.

When they hear the word debt, they think of money they owe. Therefore, it is no coincidence that these cards are named, credit cards. The people accepted this change in beliefs. Consumers adapted to the buy now pay later routine. The banking industry and some political figures were successful in altering American views. College students were no longer embracing the core values and traditions of past generations. In fact, due to the intense marketing of credit card companies at college's campuses and easily accessible credit lines, students now had a level of acceptance to having high credit card debt (Manning 4).

The late 1980's, and beyond produced young adults that were enrolled in college were optimistic about their potential incomes upon graduating (Manning 5). This made the transition in American core values even easier for the banking industry, tantalizing consumers with the buy now, pay later concept. " The most surprising phenomenon to arise from democratization of the credit card was the amount of credit made available to the poor" (Geisst 105). Credit card companies marketed to the poor, influential college students, and at those at risk to pay back. The 1990's was the decade of pre-approved credit card offers. These pre-approved applications were mailed in mass production to millions of homes across

Then consumers began to pay off one credit card with another, creating a cycle of debt with no exit in sight (Geisst 13). In 2004, 1. 53 million people had filed for bankruptcy. While credit card companies fought for lax laws regarding creating easy credit, they lobbied congress for tough laws to

protect them from consumers filing for bankruptcy to avoid paying their balances. In 2005, Senator Chris Dodd requested Congress to pass a bill mandating that all credit card issuers granting credit to those 21 and under, would have to require the person have verifiable means of income, a co-signer and/or proof of attending a financial literary course (Telvick).

For Dodd these were “ very simple, common sense suggestions, which were vehemently opposed by the banking industry” (Telvick). Dodd struggled to impose restrictions on credit card companies practices, all of his attempts failed. He blames this failure on the credit card companies. Dodd claims they are extremely powerful people with influence (“ Do You Know What You”). Credit card lenders pressed for tougher restrictions on bankruptcy filers. Representative Henry Hyde of Illinois described the “ power of the industry’s lobbyist as awesome” (Geisst 107). Although lenders were in favor of the bankruptcy reform, they were also fearful that large numbers of consumers would file for bankruptcy to avoid paying off their balances before the changes in bankruptcy laws would go into effect. Their fears came true.

In the months before new laws became effective, personal bankruptcy filings soared (Geisst 108). In October of 2005, the Bankruptcy Abuse Prevention and Consumer Protection Act took effect. The act required filers to receive counseling and also increased the amount of court fees required to file for bankruptcy (Geisst 108). It would also make it harder for consumers to shed their unsecured debt (Telvick). The longer it took for debtors to file, the more money the credit card companies would collect in interest. The approval of this act was a devastating blow to consumers in financial trouble and a win for credit card companies. The bankruptcy filings dropped by more than one

million down from 1. 53 million the year before to 600, 000 (Geisst 108). The irony here is, even those that filed for bankruptcy were able to re-establish credit after a short amount of time with no attempts by lenders to educate the consumer on ways to avoid bankruptcy again. The banking industry finds these consumers as irresistibly easy targets that increase their profits.

“ When consumers are extended credit,” Tamara Draut, Director of the Economic Opportunity Program explains, “ they think it’s because the banks see them as being capable of borrowing, while it very well may be that they are not financially prepared to take on additional debt” (Telvick). With half of Americans in financial debt, something had to change. On May 22 2009, Congress passed and President Obama signed the Credit Card Accountability, Responsibility, and Disclosure Act also known as the acronym, CARD. CARD puts an end to unfair rates and hidden fees (“ Reforms to Protect American”). Highlights of the CARD act are bans on unfair rate increases, prevents unfair fee traps, plain sight or plain language disclosures, accountability, protections for students and young people (“ Reforms to Protect American”).

The changes are substantial to help protect consumers. Credit card companies must inform the consumer 45 days in advance if they plan to increase interest rate and/fees. They are no longer allowed to raise the interest rate for the first year of opening a card unless there is a special introductory rate. These interest rules do not apply to cards with a variable interest rate though (“ What You Need To Know”). Increased interest rates can only be applied to any new charges by the consumer. If there is already an existing balance, then the old interest rate applies to that balance (“

What You Need to Know”). Changes also apply to the consumers' monthly statement. The statement must include information on how long it will take to pay off the balance if only, minimum payments are made by the consumer. One of the most important changes in the act is to protect young consumers. If a consumer is under 21, they will need to prove they are able to make payments or will need a co-signer to be approved for the credit card. If the young consumer wants to increase their credit limit, the co-signer must agree to the terms in writing (“ What You Need to Know”).

“ With this new law,” proclaimed President Barack Obama “ consumers will have the strong and reliable protections they deserve. We will continue to press for reform that is built on transparency, accountability, and mutual responsibility-values fundamental to the new foundation we seek to build for our economy” (“ Reforms to Protect American”). Some important changes went into effect on February 22 2010, while other parts not until August 2010 (“ New Law Protects Consumers”). “ Credit is not a right.” Stephen Brobeck, Executive Director of the Consumer Federation of America argues, “ If you cannot afford to pay the debt, a lender has no business at all, and in fact, is irresponsible to extend that credit” (Telvick). Geisst points out that it is no coincidence that American’s increasing debt happened after the dismantling of the usury laws (Geisst 213).

The passing and signing of the CARD act was a step in the right direction. Unfortunately, most Americans do not have a clear understanding of the laws and just how high interest rates can go. On the FDIC website it states, " While the new laws will prohibit certain practices and provide more timely disclosures of account terms and costs, consumers still need to do their part

to better manage their cards (“ New Law Protects Consumers”). Until usury laws are re-established, credit card companies will continue to charge consumers high prices to achieve the American dream.