Credit Card Companies Are Oftentimes Giving Consumers Way Too Much Credit

Introduction

The recent development in credit card lending is individuals are getting unsolicited cards in their mail. Such cards offer either a low rate of interest or they do not charge annual fees, popular baits among many credit card lenders that will end up entrapping unknowing customers into a debt pile that they will find difficult to untangle from, simply because that is how the credit cards are designed. The reality is there is an accusation that the card issuers are not doing an honest business. In addition to the various baits they are using, their lending system is also loaded with what is termed as tricks and traps. It preys on customers who could stumble or would mistakenly take some of the offers as treasures and will get caught up into a non-ending spiral of debt servicing that will not have an end in sight (Warren, 2007).

There are incidents reported where credit card companies have refused to clear borrowers who had declared bankruptcy. Such borrowers approached other lenders after going through the required period to obtain loans and the credit bureau records was still showing those nullified loans by court order as an outstanding balance forcing some of

them to pay the loans in order to avoid losing the other borrowing opportunity, which could mostly be to buy a big ticket item such as a home. No matter how low interest rate borrowers are offered on the outset, when they default they could easily start paying at the rate of 29 percent or more. In addition to that, it is possible that they could pay late fees. There are also over limit fees always accompanied by a double cycle billing, disappearing grace period, and in some cases a $15 or more telephone payment charges. Sometimes, there is also a deliberate attempt by the lenders to avoid the arriving of the loan payments sent by mail on time and there is not much the borrowers can do, where such deliberate actions could change the status of a borrower into a defaulter overnight (Johnson, 2004).

It is not only that the lenders are fully aware of where their lucrative revenue comes from and it is not from credit card borrowers who are paying their debt on time. In fact, who will end up paying a considerable amount of money are those who falter on their payments. What this reveals is credit cards are the most profitable products financial companies are selling to their customers. When seen from the point of view of what the various loans generate in a form of interest and fees, since credit cards are laden with tricks and traps they are the best lending instruments that enable the financial establishments to maximize their profit. One of the reasons that contribute to this fallout is lack of information, as there are charges hidden from the borrowers at the time of signing the agreements although the lenders are aware of them. They will only surface when borrowers stumble with their payments. There is no penalty directed at the lenders

for failing to disclose all their charges at the time of signing the loan contract (Dell'Ariccia & Marquez , 2006).

Yet, there are numerous wrongdoings governmental offices such as the General Accountability Office had recognized. The fact that lenders are keeping a large amount of information away from the borrowers when they issue the loans is a fact identified all along by regulators. Other minor findings such as concealing important information that should have been at the forefront of the documents, making the financial documents unnecessarily difficult to understand and to skim through, putting either essential information or documents where borrowers signing the paper could not find them easily, and using difficult to read small typefaces were among them (Consumer Affairs, 2006). The number of document borrowers used to go through in the early 1980s was not more than one page and in the year 2000 and later that number had surpassed 30 pages that each borrower has to go through to understand the content of the loan with a language that would be difficult even for lawyers to understand.

Furthermore, the 2005 law that made declaring bankruptcy difficult is also contributing to the erosion of what little protection the borrowers had (Washington Monthly, 2005). When borrowers felt that they are getting unfair treatment by the lenders, they can always threaten to declare bankruptcy. But now the law has made it easy for the lenders to get away by charging exorbitant sums, simply because some of the borrowers cannot get rid of the lenders and their loan because of the law that could force them to pay by garnishing their earnings making it difficult or impossible to declare

bankruptcy. Some borrowers who could be allowed to declare bankruptcy cannot do so simply because of their changed financial circumstance where they also could have problem coming up with the money required to cover the attorney and the legal fees.

What will ensue in such a situation is despite the fact that the borrowers try hard to make payment every month, because of the interest and fees that will be accumulated they will be forced to make payments for the rest of their life, without offsetting the principle that will stay the same year after year and this had happened to many people. Such people would have had an easy exit to a new start before the new law took effect, but now there is no mechanism that will enable them to have their finances in order costing them dearly in some areas such as buying homes and the like. It is not only that as a court case in North Carolina highlighted, a loan owed two years ago now costs two dollars on every dollar, which means it has become literally impossible to get rid of credit card debts (Cox & Jappelli, 1993). The main reason for that is simply because that is how credit cards are designed from the outset, to snare individuals for as long as possible, even if the borrowers had received the money they lent out initially a long time ago. The glaring question is once the lenders have recovered the money they have lent out with a justifiable return there has to be some mechanism to amortize such loans. That mechanism was bankruptcy and amending the law had made borrowers who defaulted with no fault of their own such as health problem and losing their job a lifetime prisoners for the financial companies that have started operating similar to loan sharks (Online-Loans-Pro). That is so because almost all lenders whatever product they are pushing at the borrowers, they are interrelated in such a way that someone who defaulted from one

lending institution cannot obtain another loan form another institution unless the other loans are paid. In a situation like this competition does not make sense since the products and prices are similar (Stiglitz, 1998).

Those affected with this problem are all members of society who could become vulnerable with reasons that are out of their control. In addition to those who encountered health problem and lost their jobs, students who are struggling to finance their education are the other targets. Their case could be grave simply because despite the fact that borrowing using cards would create for them another opportunity of obtaining money, in the long run it had been costing them dearly. Most of them will have to work extra hours to meet their minimum monthly payment leading to the suffering of their grades. There are some who are forced to make decision that they would have not made otherwise if it were not for the loans where there are some who were forced to leave school simply because they found it difficult to manage the school workload and whatever they are working on to offset their credit card loans (Manning, 1999).

The other sector of society that is vulnerable to the credit card loan is those who will encounter a divorce or death in the family who will have no other choice other than try to stabilize their situation by relying on credit card loans. If they falter for any reason, it will be difficult for them to bring their finances in order. The other group that has also become victim is those who are retiring or those who are approaching their retirement who could have much use for the easy money. Once they default for any reason they are

not different from the other victims and will suffer similar fate where they will find it near impossible to get rid of credit card loans without resorting to bankruptcy.

Literature Review

The law stipulates that financial establishments can charge interest rates allowed by the states that chartered them. This has allowed financial establishments such as banks to export these laws to other localities, which in its turn had attracted other financial establishments from out of the states, simply because they could escape the usury laws that could be applicable in most of the other states. The law that is responsible for this is Marquette that introduced federal preemption by allowing the exporting of laws to other states. This introduction started to attract banks into states such as Delaware and South Dakota that became hot destinations for banks that led to Delaware alone holding at least 43 percent of total credit card loans nationwide. This had resulted in generating a sizeable income for such states that might have dire needs to stimulate their economy as it was demonstrated in what Delaware alone generated in tax revenue that went up from $3.2 million to $40 million in a few years time.

Other states such as North Carolina had suffered job loss by the thousands simply because they refused to loosen the lending rules that forced financial establishment to leave in droves. The worst effect took place in 1996 when the Supreme Court enhanced the exportation law in Smiley v Citibank case where interest rate included any charge that will ensue in the usage of credit cards (University of Chicago). The regulation spelt out

by Comptroller of the Currency Office (CCO) includes all of the charges the credit card companies are using today that is void of competition (Ausubel, 1991). The effort to fend off the opening of branches and facilitating credit card loans originating from states where the regulations and laws deemed lenient did not materialize. The existence of such laws led the credit card companies to create various forms of revenues that were not as transparent as specified in what interest rates or annual fees should be. The fact that the annual fee was allowed to whiter had resulted in the coming into existence of the late fee that is enabling the lenders to charge an exorbitant sum since it could be manipulated in such a way that there is not much the borrowers can do about it except paying what is required. It is possible that late fees could trigger numerous penalties that will enable the lenders to raise the annual interest rates at will and depending on the balance the fees could also be hiked with no prior agreement. There had been opposition to such practices that put the borrowers at obvious disadvantages by pushing them deeper into debt that they cannot manage without costing them dearly.

The effort of a particular state to regulate these fees would not introduce change across the board since it is only banks located in the particular states that will be required to adhere to the new regulation, leaving banks originating from other states unaffected. Some states such as California had required lenders to inform borrowers how long it will take them to pay the debt if they only pay the minimum payment. This effort was thwarted since the laws of the states the lending establishments chartered in make them exempt from disclosing such a lending arrangement. What this reveals is what is badly lacking where even the CCO does not have the mandate to protect the interest of the

consumers (Gee, 2004). Small states such as Delaware and North Dakota that have found a way to stimulate their economy and raise their tax revenue are the ones that are responsible for the rules and regulations the baking industry is using across the nation.

In every market, there prevails demand and supply playing the role of the arbiter where whenever there is more demand if the there is a shortage of the supply the price of what is demanded will be high. The reverse will happen if demand goes down and supply remains where it is, resulting making the price of what is on offer cheaper. It is difficult to say the ideal situation is when there is a near equilibrium simply because when that is the case it will introduce some sort of stagnancy. Hence, the suppliers are always on the lookout for more buyers up to at least the limit of their immediate capacity is exhausted. The case of credit cards also in principle follow these rules although the problem is no matter how many new credits card introductions are surfacing they do not seem to satisfy the demand. This would mean there will always be need for more willing lenders no matter what their requirements are. Borrowers that declare bankruptcy will get the opportunity to put their finance in order, but declaring bankruptcy would not make anyone unfit permanently from seeking another lender (Federal Trade Commission).

The problem with the lending procedure is the lenders are certain to get their money back, while the borrowers are giving their word to pay back when they strike the deal. Such arrangements work better among businesses that are savvy of what they are doing while at the same time they are fully aware of what defaulting for any reason

would cost them. However, when it comes to the mass the drivers are numerous that include a genuine or a bogus need for money. Individuals could also succumb for the baits the lenders are putting out to reach borrowers and the easy money could also be another reason why those who might not need the money badly might be tempted to have it at their disposal. Behind all this, the reality seems to be that the business of lending and borrowing is different simply because it has a ruinous side effect similar to some drugs that could be dangerous for the health of those who use them unless there is some kind of control and regulation by authorities such as governments.

That might be the state of affairs the credit card lending business is at now, where there are lenders that are introducing all kinds of charges since they can do it legally. The only respite that could come to the rescue of the borrowers is their becoming well familiar with the rules and charges the credit card companies are coming up with. Even then there is a deliberately created gray area simply because the average customers do not have a thorough comprehension of the documents they are signing. When that is not the case the lenders are deliberately trying to communicate less vital information to the borrowers to the point where there are many charges the borrowers will become aware of after it is too late. It is not only that the possibility of making earnest mistake is there (Masaud et. al, 2007). It seems that the credit card companies are taking advantage of the existence of loopholes that do not spell out exactly what ought to be the proper legal lending practice. It is possible to mention here the federal Truth in Lending Act that requires the declaration of the potential threats of borrowing, but because of the vague nature of the Act, there is no specific requirement where every charge will require clear

explanation in advance (United States Federal Reserve Board, 2007). This unfortunate reality is resulting in borrowers finding out the hidden cost of borrowing late, leading to a default rate that is wrecking havoc in many households. In fact, the lending companies are not highlighting those hidden costs. Since no one borrows to default on a future date, it is not going to prevent the damage that could ensue after an unfortunate default triggered by reasons that could be out of the control of the borrowers.

On the other hand, when seen from the point of view of the lenders whatever they are doing could focus on availing an honest and useful service for the consumers. They claim that credit cards have availed unmatched access to credit, introduced lower costs of obtaining credit, a more secured form of payment, and numerous choices and conveniences for card holders that have contributed to the overall economic growth. This entirely is not true although the number of those who are paying their loans on time is higher than those who are defaulting. Yet, the findings clearly indicate that it is not those who are paying their loan on time that are the focus of the lenders, as what they get from them is very limited. Their focus are those they are expecting to default since they know in advance that they can generate a large amount of revenue from their failure. By the simple virtue of their failure to pay their loan on time they will end up being a lifetime captive-payers even if they had already paid a long time back what the bank exactly lent them through the process (Federal Reserve Board (US)). That is very unfair to the ordinary consumers who are the targets here and their only means of getting a respite from such a predatory lending practice, the right to declare bankruptcy had been snatched

from them making their situation worse than ever, where the life of many individuals and households had been upset to the point of no return (Mann, 2006). Since it would take a long time to pay a loan they obtained in a form of a credit card, simply because it was deliberately made like that, their chance of improving their life is simply destroyed. They cannot buy a house, send their children to school, or even buy a car and other big-ticket items that could become a nightmare since almost all lending establishments are dependant on the credit rating of individuals available at the credit bureau, in order to avail them what they require in a form of loan (Miller, 2003).

Credit card companies are claiming that they are different from other lending companies that use collateral while giving out loans. In their opinion since borrowers tend to pay loans that have collateral first in order not to lose their collateral, it makes their lending practice very risky. Nevertheless, such facts should not arm them with a license to prey on borrowers they know in advance would encounter problems in paying back the whole loan. Instead, they would force them to continue paying similar to what they do to the utility company they are using on a monthly basis, even if the money the lenders risked had made it back into their coffer a long time ago. There is an overwhelming proposal for such practice to come to an immediate end. It is not only that, all the tricks and traps the credit card companies are introducing relentlessly will prevent them from claiming an equal footing with other lenders that are not laden with hidden exorbitant charges (Reserve Board).

Furthermore, credit card companies base their charges on cost of obtaining capital and the risk involved. What the lenders call the cost of obtaining capital is what they are paying for the money they are borrowing to lend for cardholders. Obviously there is a price tag attached to such funds, but there is not even a single source that charges close to 30 percent that being the amount credit card lender are charging in the open, and in reality what they charge could go as far as 400 percent. What this means is it is possible that they could start out with a rate that reflects the global capital market as they claimed and that rate stays for the duration of the loan only for those who are in a position to pay on time. Even those who are paying on time had been charged hidden fees they take for granted most of the time, but for the lenders such hidden fees are a lucrative source of income. This would mean that those who pay on time also have to pay numerous hidden charges and there is not much they can do about it.

It is true that the credit card companies have various traps and tricks that borrowers find out only after they default. Or there are hidden costs borrowers leave for granted simply because they look to be small amounts, but when such small amounts are applied across the board it will be much more than it will cost the lender to obtain the capital they are lending out. That applies only to paying customers and for those who default, even if they had paid back the money they borrowed, they will still have to pay penalties imposed on them for simply wanting to use the service of the credit card lenders. One incident reported was a borrower had paid close to $2200 from a garnished wage for two years and the balance of the loan remained at $2607 after paying for two years. What this reveals is such borrowers will have no choice other than paying for the

rest of their life and it is difficult to justify such a practice, the reason why some kind of intervention by the government is required (Warren, 2007).

Analysis

The risk credit companies are talking about hovers around what they introduced as an innovation. They claim that not long ago credit cards were only available to high-income earners with good credit histories and the interest rate was a fixed 20 percent. Since then that rate had come down much lower as there are cards that charge between 9 and 11 percent although they charge annual fee. Those who do not want to pay the annual fee could start out with the higher rate that does not approach 20 percent unless the issuers are businesses such as department stores. Furthermore, they claim that because of change in how they are doing business lately, where because of technology they were able to assess the financial stand of borrowers more quickly and easily, they were in a position to avail loans to the lower income strata that could have gone without any lending source if the approval had been based on income level and rigid credit history (University of Virginia). It is not only that they are claiming that they have started charging interest based on the risk they will incur when lending to each borrower (Federal Reserve Board). What this allows them is not to use a regulated uniform charging method that regulators can monitor.

The problem that they are concealing is what they generate with regular loans paid on time is very low compared to those what they term as high-risk borrowers that

they know would default at some point. What they undertook ever since they made credit cards easily available was to give easy access to loans for these vulnerable borrowers with terms they do not understand. They have introduced arrangements such as minimum payments that will deceive these borrowers slowly into defaulters without bringing down the principle, since oftentimes the minimum payment does not bring down the principle. Therefore, it is obvious that they have turned the technological advancement to their advantage and through the process they have gone out and created a huge pool of monthly bill payers for a none existing service they are getting from these lenders. What they did was exploiting the loophole the law availed them when they were allowed to charge any amount of fee, interest rate, and penalty. In addition to that, there is enough evidence that the arbitration that is in place does not protect the interest of the lender since none of the laws have application there (Coyle, 2007).

At least, the consumers had one window of opportunity to bring their finances in order when they succumb for the sophisticatedly designed preying of credit card companies by declaring bankruptcy. There is no denying the fact that the number of bankruptcies had been very high before the introduction of the 2005 law, which was the outcome of an industry going out of its way to prey on those who are vulnerable rather than any crises that faced the banking industry (Borio & Lowe, 2002). The reason behind it had always been the lending industry had simply found it to be lucrative than what it is doing in a normal circumstance. That was not enough and it had unleashed its lobbying (Mann, 2006) campaign funding capability where it had convinced or pressured the lawmakers to make declaring bankruptcy difficult (Mother Jones, 2007). This measure

seems to be harboring wrong judgment as time goes by, simply because the number of households that have become bill payers for a bogus financial arrangement had reached an epic proportion and it needs immediate attention badly. A big number of people are not going to participate in any other economic activity other than servicing their debt forced by the law introduced by the government that already has a serious effect on the economy too (Todd, 2000). The scenario is people are being robbed off their hard earned money in the day light simply because the system they elected and put in place has failed them and is doing nothing to protect them.

What is complicating the whole arrangement and how the lenders justify the damage they are causing is through what they term as risk-based pricing, which is not tangible. Those who have low-income strata do not necessarily deserve a label that will make them high-risk borrowers (Lee, 2005). As long as loans are paid on time, there are no justifiable reasons for labeling borrowers as high-risk and start charging them a high interest rate from the outset, where the cumulative effect is believed to push low income earners into defaulters, hence the lucrative source of profit for the lenders (Grow & Epstein, 2007). Such outlook seem to have the intention of labeling a subgroup that is intended to be an income generator for the so called lenders from the outset. To deflect such claims what the lenders are claiming is if what they are charging is proportionately high, it should reflect on the return on assets that had been steadily around 3.12 percent. May be that by itself might be high when comparing it with what other business ventures are garnering (Shapiro & Varian, 1999).

The other area that requires intervening is the climbing rate and charges, as the circumstance of the borrowers change it contributes to the untimely default of the borrowers. What this means is there is someone with the capacity to tip the balance by preying on how the struggling borrowers are faring. The obvious reason for that could be it is only when borrowers default the lending business would be lucrative and profitable for the lenders and such practice has to be prohibited by law. The excuse for some of the aggressive measures the lenders are implementing is if they were not applying such strict penalties, borrowers would become less motivated to keep their payment history in good order. This does not apply in normal circumstances since the existence of any penalty will make the borrowers aware of what will await them if they default, which means they do not need other factors to push them toward defaulting while they are trying to cope up with other misfortunes.

The lending companies are fully aware of why the borrowers need money, but the problem is they are in a position to introduce rules that do not make sense. For example, if a borrowers fails to pay two minimum payments or overdraw the account more than two times in a given year there is no justification for losing all they have worked for, maybe for years. A cardholder who was paying between 9 and 12 percent could end up paying 29 percent for making such simple mistakes, whereas there should have been a one-time penalty earmarked for such falling behind (Massoud et. al, 2006). That itself shows the credit card companies should be stopped by some kind of intervention as they are turning a big number of households their bill payers, simply because they have managed to make the lawmakers close the only mechanism the borrowers could put a cap

on such preying and misbehaving, as some calls it. No matter what they claim, the lenders are cashing on something that is bound to happen, except that they have the means to make it happen faster.

The other area credit card issuers are priding themselves of is borrowers choose to use credit cards to buy big ticket items instead of striking deals with the vendors that are in a position to avail them similar loans too (Durkin, 2000). What they fail to mention is the only reason why buyers choose to use credit card is the interest rate could always be lower than what the vendors are charging, as the nightmare of hiking up the rates starts when they default (Calem & Mester, 1995). The difference that they do not mention is if the buyers do not pay the vendors the most it will cost them is losing the item they bought on credit and they could get a refund for the amount they paid minus usage, and everything stops there. That is not the case with the preying credit card companies that are fully aware of what the borrowers use the easy loan for, the main reason why they offer a low interest rate at the beginning. Overall, it is not difficult to see the sophistication the lending companies are applying when it comes to availing loan. Even if they are claiming the percentage of those who are encountering default is low, those who are pushed into default by tricks and traps the credit companies are introducing in an ongoing basis need immediate help, because it has already reached a loan shark proportion, simply because borrowers cannot pay up their loans throughout their lifetime (Washington Monthly, 2005).

Recommendation

In all this, some kind of change is advocated simply because the number of households wrought by the problem is on the rise. Especially now, since the bankruptcy law had been tightened to the point where it is not possible to write off loans without making payment in some form, albeit to some of asset protection borrowers would get, the measure had resulted in harming the finances of many households to the point where they cannot obtain any kind of loan except servicing credit card loans for life (Chapman & Johnson, 2005). Even if there are other culprits that are contributing to the problem, the major one still is the allowing of importing the usury laws of other states that will end up tying the hands of states that are trying to introduce legislation that will protect the interest of borrowers.

There are various suggestions made and among them is to prohibit credit card companies from changing the charges and, terms and agreements of the loans for the duration of the loan for no reason at all. The lending companies have legal permission to introduce various charges at anytime, for any reason they deemed appropriate. If the borrowers oppose the introduction, the only alternative available for them is to pay up all the outstanding loans and face all the consequences, where such measures alone could hike up the interest rate to an out of proportion level not agreed upon on the outset. In addition to that a card that is bundled with another card could lose the agreed upon rate for defaulting on the other card. The new interest rate will affect the whole loan where

for example, if there had been a balance transfer with a lower interest rate that will suffer nullification. The rate could approach close to 30 percent for two late payments or for exceeding the credit line two times in a given year. When that happens the credit card company could get away by charging what it feels is appropriate for items bought before such occurrences.

Furthermore, fees should relate to the cost of providing the loan instead of the farfetched amount the lending institutions are charging simply because there is no rule to regulate what they are charging and there are no uniform charges revealing what takes place is out of order. There also has to be a means of charging interest rates according to the risk involved and what credit card companies are charging should not depart much from the prime rate (Furletti, 2003). One method the lenders making money is they can introduce various kinds of billing arrangement that could confuse the borrowers and sometimes it would undermine their earnest effort to make payments on time. Hence, the cycle has to be consistent across the board and it should preferably be 30 days. It also has to take into consideration when or how many times in a given month people get paid since the 22 days allowed to pay back what they borrowed would force most borrowers to either pay late or miss payment.

The amount of the minimum balance payment should reduce the principle, as there is accusation that the reason why it is low is to lull borrowers into falling into the trap of defaulting the loan. Hence, the requirement should focus on coming up with an amount that will enable the borrowers to pay up the loan in a given number of years. One

other observed practice is where the lenders lower the credit limit agreed upon for any reason they deem appropriate and charge penalty in a form of an over limit fee for any outstanding balance over the new limit they introduced (Day, 2005). This might pass as a gross misbehavior where the implication could be they are living in a lawless society where they can get away by doing what they only feel is correct. In addition, one persistent problem highlighted was borrowers most of the time fail to understand the terms and agreements they sign since it is difficult to comprehend in almost all cases. The borrowers consent simply because they need the money and are not planning to default deliberately. Nevertheless, they cannot avoid abiding by what they signed when they encounter a peril they have not bargained for that could force them into paying fees that they were not aware of their existence. Moreover, the above-discussed problems are true because of the high number of irate complaints the industry receives from its clients on an ongoing basis.

The credit card lending industry requires an overhaul so that consumers would not have to be victims of loan predators that have already inflicted a considerable damage that is repairable only by reinstating the bankruptcy law back to where it was. What this means is if an arbitration finds out a borrower has paid back the original amount lent and a service charge deemed to be a reasonable amount to pay for the service provided, such borrowers should automatically qualify to declare bankruptcy (Coyle, 2007). If that is not going to be the case, what they are paying is what the predating lending companies had designed for them and that should be illegal. In addition, when borrowers default as long as they are making payments there is no justifiable reason why the payment made

should be unnecessarily high than what the fund is costing in the capital market. Since the lenders are not paying an interest rate that approaches 30 percent there is no reason why they charge so much. If that is not the case, the borrowers will find it easy to pay the loan back on time without defaulting (Kish, 2006).

Another area to be looked at is if the lending companies do not have the ability to distinguish who would pay and who would not pay by making a through research of the borrowers' background, they would have to be forced to seek outside help. The reason for that is from what is taking place today, anyone can apply for a credit card online and could obtain a loan even if what a particular borrower declares is not true and might have certain traits that could make such borrowers unfit for loans. In addition, it is not easy to find out those traits without having a close encounter with the borrower and carry out a much thorough examination (Evans & Schmalensee, 2005). Overall, there has to be a mechanism that will prevent the credit card companies from availing their easy loans to the public by only looking at how much the borrowers earn and their credit history. If they do so for any reason, they should carry the brunt by allowing such individuals to declare bankruptcy without facing any restriction (Berney, 2005)

Conclusion

Overall, what the credit card companies are doing might not be bad, especially when considering the majority of borrowers pay their debt on time and take the various

advantages these lending institutions are availing. However, if there is a concern it is that the income they are generating from borrowers who are paying their credit card debt is not much when compared to those who default. This itself is a red flag that will force the regulators to look into what is taking place. Because the drive to make a huge amount of return have turned the credit card companies into predators that are preying on those they know would find it difficult to pay back the easy money they are availing to them with the twisted terms and agreement they are making them sign. One reason for that is the law allows them to change those agreements as many times as they deemed it necessary. It is not only that there is enough proof that they are not only designing the credit card lending process to push as many borrowers as possible into defaulters, but there are many schemes they do deliberately introduce to make it difficult for the borrowers to make their payments or a regular basis.

Some of the tricks and traps they are introducing discussed above demonstrate that the borrowers have almost no choice other than to comply with whatever rule the lenders are coming up with. Especially, after the introduction of the new law that took place in 2005 that made bankruptcy difficult, the lenders could easily have borrowers' wage garnished and sit back and collect payment month after month fully knowing that what they are doing is loan sharking. The problem is it is difficult to come to terms with how the lawmakers and the regulators would allow such things to happen to the public (White, 2007). What this means is there is an urgent need to look into the matter where one of the solution could be the reinstating of the bankruptcy loan that will free borrowers that have fallen into the trap of the predating lenders. It does not mean such a

measure alone will be enough since it does not make every borrower immune from being charged unfairly, the reason why an examination should be conducted as to why the lenders are introducing such an exorbitant rate. It is only those who are willing to charge a normal fee alone that should get the go ahead to issue cards in the future. Since the credit card lenders are exploiting loopholes the lawmakers put in place knowingly or unknowingly, once they are closed there is no reason why they should not conduct an honest business. This is, of course, very important for the borrowers who are trapped into making monthly payments from their hard earned monthly income into a loan account that might not be paid up in their lifetime. It is needles to say that what this implies is as good as saying a good portion of the population had started a while back to work hard to channel money into the account of modern day loan sharks. These loan sharks had managed to somehow circumvent the lawmakers and regulators by making them introduce such favorable laws that they will have to reconsider, because there is no merit to it. The same lending procedure should exist in a more regulated environment and only as long as there will not be anyone victimized by the schemes of the predators.

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