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November 19, 2008

The Honorable Henry M. Paulson, Jr.
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

The Honorable Ben S. Bernanke
Chairman
The Federal Reserve Board
20th Street and Constitution Avenue, NW
Washington, DC 20551

Dear Secretary Paulson and Chairman Bernanke:

I am writing to express my concern regarding new developments in the credit card industry. I am troubled by reports of major credit card issuers arbitrarily raising interest rates for many of their customers, even as the federal government considers taking unprecedented action to intervene in the consumer credit sector.

When the Federal Reserve issued its proposed rulemaking on credit cards this summer, I praised these actions as a good first step, but urged them to do more to ensure consumers are given a fair deal. Since then, the situation has become even more dire as mortgage foreclosures, economic contraction, and skyrocketing unemployment have come together to form a perfect storm that is battering the American people. With default rates skyrocketing, and Americans holding almost \$1 trillion in credit card debt, it is now more urgent than ever that we protect consumers from egregious and unfair practices.

Unfortunately, at a time when consumers are most vulnerable, several major credit card companies are exacerbating the situation by unilaterally raising interest rates, even on consumers who have never been late on payments. This is not risk-based pricing; rather, it is merely a way for issuers to recover losses they are incurring at the expense of American families. Forcing consumers to pay for the mistakes of credit card executives is not only unfair, it also threatens to push many more people into default and even bankruptcy.

Last week, Secretary Paulson announced that the Treasury Department is considering giving tens of billions of dollars to the Federal Reserve to purchase credit card-backed securities. While I'm not necessarily opposed to this kind of direct action, I strongly believe that any government intervention must make helping consumers its central focus and ultimate objective. Stronger consumer protections, such as prohibiting unilateral rate increases, ending universal default, and

requiring that penalty rates and fees be reasonably tied to cost, should be prerequisites for any issuers who wish to benefit from government assistance. These commonsense reforms will not only relieve some of the pressure on consumers, they will also end some of the most egregious practices that have forced so many people to the brink of bankruptcy.

Much of the current economic predicament we are now in can be traced back to irresponsible lending that was enabled by an ineffective and weak regulatory structure, and the American people are paying the price. Secretary Paulson and Chairman Bernanke, I urge you to focus your attention and efforts on helping Americans who have been caught in the crossfire by strengthening credit card protections.

Sincerely,

A handwritten signature in blue ink that reads "Robert Menendez". The signature is fluid and cursive, with a prominent "R" and "M".

ROBERT MENENDEZ
United States Senator