

Lets say I owe the bank behind my credit card 1k dollars and Im paying 10pct interest because the best I can do is a little bit more than the minimum payment.

You come to me and tell me you are going to take out a loan for at least 25k dollars, get me to cosign for it, and garnish the taxes I will pay in the future to pay back the loan. Then you tell me you are going to take the 25k dollar loan proceeds and give it to the bank that I have my credit card with and charge it 5pct plus some warrants to in turn loan that money back to me if i want to increase my balance.

The problem isnt that the Fed is doing this (Yes I know we could argue this, but its too late now). The problem is that they are not asking for more from the Banks for doing it.

The same banks they are pumping money into, the same banks they want to work with to help save people's homes, are many of the same banks that are pounding credit card holders with 10pct plus interest rates and fees that can pump up effective interest rates past 40pct !

In exchange for Bailout Funding, the TARP should require banks that issue credit cards, whether in their names or others, to limit interest rates and fees.

The usurious rates and charges in place today increase credit card defaults, which in turn increase mortgage defaults, which in turn cause people to have their live's turned upside down and put the banks that we are bailing out in [court to sue , garnish wages and all the other terrible things](#) that can happen when a user defaults on their credit cards. All of which extend and deepen the recession we are in.

Its not like the Fed trusts banks that offer credit cards. They had to [pass laws trying to protect consumers](#) from banks trying to rip us off. You would think they would have recognized that the BailOut is the way to protect consumers even further.

If our country thinks the velocity of the decline in the housing market was fast. If our country thought the impact of banks , homeowners and hedge funds deleveraging was bad, what does the Bail Out BrainTrust think will happen when a quickly growing number of people default on their credit cards ?

Think compounding 10pct plus credit card interest rates on cards will extend or contract the recession ? Would we rather see families buying food and consumer items, or spending the money on interest and late fees ? Which will help the economy more ?

Normally, there would be no standing to ask banks to reduce their interest rates and eliminate their fees. Credit card junkies would just get what they deserve. Normally those same credit card junkies wouldn't see their tax dollars loaned to banks at 5pct so they can borrow it at 10pct plus.

Now is the time for the Bail Out BrainTrust to be proactive. Tell Banks that when they take bailout money, they must limit interest rates to 6pct, eliminate late fees on balances under 1k dollars, and create extended term payoff options as an alternative to default. The TARP has evolved, it has to evolve to deal with consumer credit card debt.

I realize that this could lead banks to be less likely to issue new cards because of the reduced profit opportunity. I think we should take that chance.

I also realize that this will reduce profits for banks that need every bit of profit they can get to pay the 5pct interest on the preferred stock they are selling the Fed. This is not a problem at all.

There is [962 Billion dollars](#) in credit card debt outstanding. Lets guess that the average effective rate is 10pct and [1/3 of people pay off their bills every month](#) . Lowering that to 6pct means that the banks will lose about \$25 Billion Dollars in interest and fees per year.

I would be ok with crediting lost interest against the 5pct coupon the Fed is getting from them. I would be happier if we said that if they dont do this, the next dollar we give them will pay us 9pct instead of 5pct.

When the Fed buys down credit card rates and fees there is a long list of benefits:

It acts as an immediate fiscal stimulus by putting money in the hands of people who need it the most and more importantly, are most likely to spend it. This will help the economy and hopefully limit the depth and duration of the recession we are in.

It reduces the number of mortgage defaults. People who cant pay their credit cards, cant pay their mortgages.

It reduces the [write offs of credit card debt](#) that banks would have to take. I know 100 to 200 Billion in credit card write offs may not seem like much these days, it is. More write offs means more BailOut money lent to them . It also eliminates the ultimate privacy disaster. Could you imagine if the Fed decided they needed to buy defaulted credit card debt? Could you imagine having the IRS calling you about your credit card debt ?

Of course there is the undesired consequence that more people will use their credit cards which readers of this blog know i think is a mistake. Unfortunately, desperate times call for desperate measures. This is credit crack and we are begging consumers to sample it and become addicted. I guess this is where my self interest takes over. Lower rates, and more people using credit could lead us out of the recession.

What if the Fed doesnt buy down credit card interest rates and fees ?

If you think its bad today, you ain't seen nothing yet. Deleveraging of the consumer society we live in will QUICKLY take more money out of the system then we can possibly imagine and thats not good. In a nutshell, the people who can afford to spend using credit cards, will use their credit cards less and spend less because the interest rates are too high, their is uncertainty about jobs and they fear not being able to pay it off in 30 days. [Those who can't afford to use credit cards and are in a bad situation, will use their credit cards more, because they have no choice, and a quickly growing number of them will default on those growing balances. All of which is a negative for the economy.](#)

Please call your state representative and senator and ask them to act on credit card debt. Tell them we want them to be proactive. Before its too late.