CONSUMER ACTION NEWS

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Poll asks about credit card credit limits

17.5% of respondents had credit limits lowered

For several years, Consumer Action's annual credit card surveys have found that card companies will reduce the maximum amount of credit extended to cardholders, sometimes without warning. Reducing a cardholder's borrowing limits can lead to lower credit scores and make it more difficult to qualify for new credit.

Banks say they are doing this as a way to manage the risk of cardholders taking on too much debt and defaulting on the loans.

This summer, Consumer Action conducted an online survey to find out how common this practice is. The poll also asked about consumer experiences and attitudes on credit card spending limits. Responses from 1,069 people nationwide show:

• Nearly one in five respondents said their credit limits had been lowered at one time or another.

• In 2008 alone, almost 10% of consumers said their credit limits had been lowered.

• Only a quarter recognized that their credit limits could be reduced if they exceeded the limit.

• About a third of respondents said they have been charged an over limit fee.

The economy is causing many families to tighten their belts. The highest number of respondents (42%) said they were using less of their credit, followed by 32% who said they were using about the same amount. Only 27% said they were using more of their credit.

Credit card usage

Consumer Action asked a few questions about credit cards:

• More than half of respondents have between 2-5 credit cards. A quarter of them have 5-10 cards.

• On their one card with the highest limit, half had access to $10,000 or more.

• The amount of the credit being used on that one card was less than 10% for 37% of respondents and "very close to my limit" for 21%.

"It is striking how many people are managing their credit so well," said Linda Sherry of Consumer Action. "But it is of great concern in this economy that the second largest group is at risk of going over limit and potentially facing a higher penalty interest rate for doing so."

Automatic increases

Surprisingly, 43% said their credit lines had been "automatically increased by the bank" in 2008.

"We wonder why in this dreadful economy, issuers would automatically increase credit lines," asks Sherry. "That seems irresponsible."

In a separate question, about half said their interest rates had been increased.

"There may be a cause and effect here," said Sherry. "Companies automatically raise credit limits, putting card holders at risk for increased debt loads, and then increase interest rates if cardholders miss payments because they find the extra debt hard to handle."

In 2008, a small number of respondents (4.3%) had asked for and received a credit line increase, and an even smaller number (2.6%) said they had asked to have their credit limits lowered. "These people are pro-actively managing their own lines of credit," said Sherry. "We wish credit card issuers would let all cardholders choose appropriate credit lines, instead of pushing automatic increases on people who don't ask for them."

The online Credit Limit Survey, conducted between June 23 and July 15, 2008, was designed to gauge consumer experiences with maximum spending limits. Respondents, numbering 1,069, came from all 50 states and the District of Columbia. Of the people who chose to identify their first language, 95% were English speakers. Spanish speakers accounted for 3.5% of respondents.

The survey was conducted through Consumer Action's website and promoted by email to Consumer Action's

See "Credit limit poll," page 2

2008 Credit Card Survey

Any time, any reason, and even for good customers

You are a good credit card customer. You pay on time and stay within your credit limit. The company can't change your terms, right? According to Consumer Action's 2008 Credit Card Survey, this belief is dead wrong.

In response to the question, "Can you increase my APR or change my terms 'any time for any reason'?" 17 of the 22 surveyed financial institutions, or 77%, said yes. These institutions included Citi, which pledged in 2007 not to change customers' terms during the "good through" period on the card.

In response to the question, "Do you raise my interest rate because of my credit record with other credit cards or lenders?" 10 institutions answered yes. They are: American Airlines-Federal Credit Union (FCU), Chase, Citi, Digital FCU, Discover, HSBC Bank, Pentagon FCU, Pulaski Bank and Trust, US Bank and Washington Mutual (WaMu).

Some institutions explained that such increases don't happen "solely" because cardholders missed payments with other credit cards or lenders, but are based on a risk formula that includes credit scores and other factors.

Reasons given by customer service representatives at nine companies about the factors that might cause an interest rate to be increased, included: worsening credit scores, market conditions, the economy, paying another company late, too many credit cards, too much debt, too many inquiries on the credit report, business strategies, changes in the APR, default payments, debt-to-income ratios and defaults with other creditors.

It is new to have market conditions among these reasons. The "market conditions" loophole already has led to rate hikes on large groups of customers at Bank of America and Capital One.

"When cardholders accept the offered price they don't know how 'market conditions' will change and impact the cost of carrying the balances they took on at a lower interest rate," said Linda Sherry of Consumer Action. "Consumers should not need a crystal ball when they enter a contract."

In April, Consumer Action reviewed online disclosures at five top credit card lenders: Bank of America, Chase, Citi, American Express and Capital One. "All write themselves a blank check to change rates," she said, noting that Citi has pledged not to change cardholders' rates until each card expires.

Issuers keep finding new and creative ways to increase the costs that credit cardholders pay. Yet consumers can't just walk away and find an issuer with fairer terms, even if their credit history is okay, because the dominant issuers have nearly identical terms. Today, just a few issuers control over 80% of the cards. In 1990, the Top 10 issuers held less than 60% of the market. By 2004, the top ten alone controlled an estimated 89.5% market share.

Despite the current credit crunch, Consumer Action found that the industry continues to lure people in at low interest rates (46% of surveyed cards had 0% balance transfer rates for new cardholders). But in general, if cardholders pay even one day late the account can be converted to a standard rate, and following any more late payments, to extremely high default rates averaging 26.87%.

Once a cardholder's rate is raised, how soon can he or she get back to the origi-

See 2008 survey, page 3

Survey at a glance

Issuers: 22 **Cards:** 41
Average APR: 13.54%
Low: 6% (Wells Fargo *Prime Rate Card*)
High: 22.75% (high rate* on Well Fargo's *Cash Back Card*)

Variable Cards: 29
Average Variable APR: 14.25%
Low: 6% (Wells Fargo *Prime Rate Card*)
High: 22.75% (high rate* on Well Fargo's *Cash Back Card*)

Fixed Rate Cards: 12
Average Fixed APR: 11.82%
Low: 7.25% (Simmons First *Platinum Card*)
High: 18.99% (Discover *Open Road* and *More* cards*)

**Rate is dependent on credit rating.*

Inside this issue

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Spotlight on the high cost of 'subprime' credit cards

By Ruth Susswein

Consumers who were fooled into paying top dollar for very little credit might soon be eligible for refunds from subprime credit card issuers under the terms of a federal enforcement action.

Subprime credit cards are low-limit credit cards with extraordinarily high upfront fees targeted at people with poor or damaged credit.

Two federal enforcement agencies, the Federal Deposit Insurance Corporation (FDIC) and the Federal Trade Commission (FTC), filed separate complaints on June 10 against CompuCredit and two partner banks – First Bank of Delaware and First Bank & Trust in Brookings, S.D. The agencies charged the companies with failing to disclose fees and terms to subprime card applicants.

A third bank, Columbus Bank and Trust, of Columbus, GA, has settled with regulators and agreed to pay almost $10 million in fines and restitution.

Federal agencies are tightening rules and enforcement for subprime credit card practices, and their efforts might lead to greater protections and money back in cardholders' pockets.

In a joint investigation, regulators found that CompuCredit typically charged customers $185 in application, processing and annual fees for an initial line of credit worth just $300, leaving a consumer with only $115 in available credit.

On some higher credit lines, CompuCredit failed to explain that only a half of the credit line was available during the first 90 days. According to the FDIC, the company also would monitor consumer purchases and reduce the credit line based on purchasing behavior.

The FTC also charged CompuCredit and another partner, Jefferson Capital, with violating the Fair Debt Collections Practices Act. The partners marketed a Visa credit card to consumers with charged-off debt, representing to applicants that the consumers' old debt balance would be immediately transferred to the new card and furnished to consumer reporting agencies as paid in full. Once in the plan, cardholders learned that they were required to repay old, previously charged-off debts.

The FTC and the FDIC have sued the companies and settled with another issuer, Columbus Bank & Trust. Now the lender must prominently disclose all fees and restrictions related to the credit line.

The FDIC estimates that subprime credit card issuers will have to pay more than $200 million in restitution for misleading offers and predatory lending practices. In addition, the FDIC seeks civil penalties from CompuCredit for $6.2 million and $431,000 from partner banks. Cardholders who are eligible for refunds will be contacted directly by issuers when refunds are available.

Subprime proposal

As part of the Federal Reserve's plan to crack down on abusive credit card practices, it proposes to ban subprime credit card issuers from charging upfront fees (application, annual, account maintenance fees, etc.) to the new line of credit, if the fees total more than half of the credit line. So if a subprime issuer charged $151 or more in fees on a card with a $300 credit limit, the fees could not be charged to the card or financed over time.

These subprime lenders of last resort would still be able to charge sky-high fees, but they would not be able to add them to the balance on the new card.

"The Fed needs to take one giant step further and limit the amount of upfront fees issuers can charge," argues Linda Sherry, Consumer Action's director of national priorities. "There's no justification for charging a consumer more than half the credit line in fees. These issuers prey on people who have no place else to turn for credit."

Right to reject

If the card has not been used, the Fed plans to give consumers the right to reject the credit card and obtain a full refund of any fees.

In a move that is unpopular with credit card protection advocates, the Fed would allow subprime fees totaling between 25%-50% of the credit line to be financed over the first year.

"Making these fees easier to swallow ensures that consumers will continue to accept subprime cards," said Sherry. "We need to prohibit predatory upfront fees for credit."

Congresswoman Carolyn Maloney's (D-NY) Credit Card Bill of Rights (H.R. 5244) would require that any subprime card fees of more than 25% of the credit line be paid upfront before the card is issued. She hopes this tactic would prevent people from accepting the pricey cards because of the pain of the lump sum payment. ■

Credit limit poll

Continued from page 1

network of community-based organizations, online members, Take@ction Center subscribers and people who had lodged complaints with the organization. Americans for Fairness in Lending (www.affil.org) also promoted the survey to its email list.

The poll showed that respondents overwhelmingly understand two key penalties they might face if they exceed the credit limit on their cards:

- They could be charged over limit fees (89.9%).
- Their interest rate might be increased (77.3%).

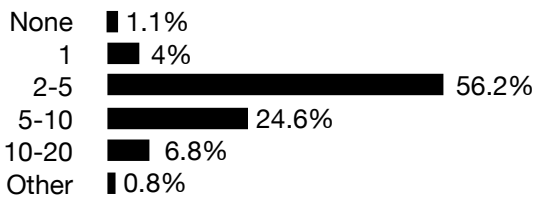
However, only a quarter (26.2%) answered—correctly—that their credit limit could be lowered when they exceeded the limit. ■

www.consumer-action.org/join/donate

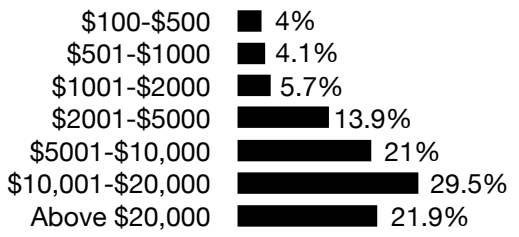
Credit card snapshot

The online Credit Limit Survey, conducted between June 23 and July 15, 2008, was designed to gauge consumer experiences with maximum spending limits. Respondents, numbering 1,069, came from all 50 states and the District of Columbia. Of the people who chose to identify their first language, 95% were English speakers. Spanish speakers accounted for 3.5% of respondents.

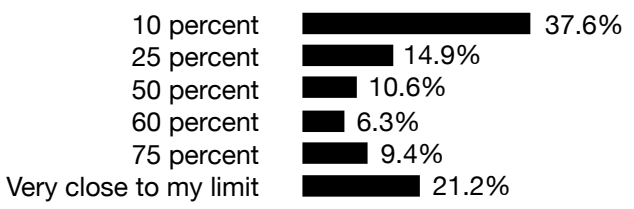
How many credit cards do you have?



Please choose the answer below that best represents the HIGHEST credit limit you have on ONE card:



On a percentage basis, how much of the credit limit on the card you mentioned in the question above are you currently accessing? Choose the closest answer.



Comparing your current credit card balances to one year ago, are you now using:

2008 survey

Continued from page 1

nal rate? In response, eight issuers could not provide an answer; five said no, and nine said yes, the cardholder might eventually qualify for a lower rate.

Most of the issuers that said the rate eventually could be lowered noted that it was necessary for the cardholder to call customer service and ask for an account review. Most required six months to a year of good payment history before considering a rate reduction.

Default rate 'purgatory'

"It is totally unfair to keep people at a higher rate forever, when they got to the higher rate by paying late one time or for some other minor issue," said Sherry.

Companies have "one size fits all" default rates that have no connection with the actions that trigger them. "Is an increase to 30% APR really warranted when you make a payment that arrives a few hours late?" asked Sherry.

This year, the survey found that 38 cards (93%) had default rates averaging 26.87%. The highest default rate was at HSBC (31.99%) and the lowest at Simmons First (15.25%). In 2007 the average penalty rate was 24.51%, with a high of 32.24%.

In 2008, 27 cards (66%) had variable default rates that moved with the Prime Rate or other formula. This would account for the top default rate being somewhat lower this year, as the Prime Rate index went down from 7.25% to 5.25% during the survey period.

Notable findings

• Of the 41 cards surveyed, 28 (68%) offered rewards, rebates etc. While our methodology included the selection of one rewards card for each of the Top Ten issuers, this would only account for 10 cards. Today, we find that many standard cards also offer the ability to earn rewards.

• Ninety-five percent of all surveyed cards had late fees. Two cards had no late fees (American Express Clear Card and First Command Bank Platinum Card).

• Foreign transaction fees of 3% are charged on all purchases made in another currency by Bank of America, Chase, Citi, Digital FCU, HSBC Bank, Town North Bank, U.S. Bank and Wells Fargo. The 3% fee is the highest found by Consumer Action this year. Only Capital One and Arkansas National Bank (which went out of business following the survey) charged no foreign currency transaction fees.

• Surprisingly, despite the credit crunch, 13 surveyed cards (32%) offered 0% introductory ("teaser") rates on new cards. Most teasers lasted for six months, although Citi and HSBC had offers of up to 12 months. On balance transfers, 20 cards (51%) had 0% intro rates, some available for up to 12 months. *(See chart at right.)*

• Binding mandatory arbitration was required on 87% of the cards on which we could obtain yes or no answers (31 cards). (Survey results included three "don't knows" and we were unable to obtain this information on seven cards.) Three cards (Addison Avenue FCU, Golden1 FCU and Simmons First) said they did not require arbitration. Discover allowed cardholders to decline the arbitration clause if they notified the bank within 30 days of receiving their cards. *(For more about arbitration, see page 6.)*

About the survey

The 2008 Credit Card Survey was conducted from Feb. 26-April 9, 2008 by Sheree Jones and Selwyn Cooper, students at the Virginia Institute of Technology (VT), and Linda Sherry of Consumer Action. Consumer Action gratefully acknowledges the assistance of the VT team, led by Professor Irene Leech, Associate Professor of Apparel, Housing, and Resource Management at VT. Ruth Susswein of Consumer Action coordinated the surveying.

Consumer Action has conducted its annual credit card surveys since the mid-1980s. To collect our data, we visit the websites of all surveyed institutions and call customer service to ask for answers to our questions. Our surveyors pose as consumers and call as many times as needed to obtain at least two answers that agree. The 2008 survey intake form contained 102 questions.

We examined 41 cards from 22 financial institutions, including the top ten U.S. credit card issuers, six low-rate issuers and six large credit unions. The Prime Rate, upon which many variable interest rate cards are dependent, went down two times (from 7.25% to 6.00% and 5.25%) during the survey.

Annual percentage rates (APRs)

Interest rates ranged from 6% (Prime Rate Card, Wells Fargo) to 22.75% (highest rate on Well Fargo's Cash Back Card). The average purchase rate of 13.54% was about one percentage point lower than our 2007 finding of 14.53%.

The 29 variable rate cards surveyed this year averaged 14.25%, one percentage point lower than the 2007 average of 15.25%. (In 2005 variable rate cards averaged 12.96%.) The range is the same as described above for the overall survey.

This year, Consumer Action eyed 12 fixed rate cards that averaged 11.82%, just a bit higher than our 2007 fixed rate average of 11.34%. In 2005, the fixed rate average was 11.15%. The range on fixed rate cards is 7.25% (Simmons First Platinum Card) to 18.99% (top rate for Discover Open Road and More cards).

Annual fees

In 2008, 85% (35) of surveyed cards had no annual fees. (Last year, 75% of surveyed cards did not have annual fees.) Among the cards with annual fees, fees range from $18 (Navy Federal Credit Union goRewards Card) to $79 (HSBC Platinum), with an average annual fee of $43.50. In 2007, the average annual fee was $44.74 and the range of APRs was $18 to $79.

A complete list of all APRs, annual fees (if any), contact information and late, over limit and cash advance fees is available on Consumer Action's website (www.consumer-action.org). ■

Discover acquires Diners Club

Discover Card, one of the top credit card issuers, announced in early July that it will purchase Diners Club, which will allow Discover to expand into European markets.

Currently Discover can be used only in U.S., Canada, Central America, Mexico, the Caribbean and China.

The Diner's Club card is the world's first charge card. Issued first as a small piece of cardboard in 1950, it was not until 1961 that the company released the first plastic charge card.

Discover said in a press release that the strength of the Diner's Club brand overseas was a key consideration in the acquisition. ■

Despite credit crunch, many 0% balance transfer offers

The Consumer Action 2008 Credit Card Survey found that the 0% balance transfer offer is alive and well. For contact information on these card companies, download our survey (www.consumer-action.org/downloads/english/Big_Chart.pdf).

Many issuers waive balance transfer fees for new customers. Always ask, because balance transfer fees can be as high as 3% of the amount transferred.

Consumer Action also found many limited time introductory offers on purchases.

This survey was conducted between Feb. 26 and April 9, 2008. Consumer Action prohibits any use of its name or any reference to its surveys in advertising or for any other commercial purpose.

Issuer	Card Name	APR*	Length
American Airlines FCU	*Platinum Reward*	Zero	Varies by offer
Bank of America	*Platinum Plus*	Zero	12 months
	Rewards American Express	Zero	12 months
Chase	*Perfect Card*	Zero	6 months
	Platinum	Zero	6 months
Citi	*AT&T Universal Platinum*	Zero	12 months
	Diamond Preferred Rewards	Zero	12 months
	Platinum Select	Zero	12 months
Discover	*Open Road Card*	Zero	12 months
	More Card	Zero	12 months
	Miles Card	Zero	12 months
HSBC Bank	*GM Flexible Earnings*	Zero	12 months
Pulaski Bank and Trust	*Classic*	Zero	6 months
	Iberia Bank Card	Zero	6 months
U.S. Bank	*Travel Rewards Platinum*	Zero	6 months
	Platinum	Zero	12 months
Washington Mutual	*Platinum*	Zero	6 months
Wells Fargo	*Prime Rate Card*	Zero	30 days
	Cash Back	Zero-5.90%	6 months
	Platinum Card	Zero-5.90%	6 months
Addison Avenue FCU	*Cash Back Rewards*	3.99%	6 months
Town North Bank	*TNB Card*	4.99%	6 months
Pentagon FCU	*Platinum Reward*	5.99%	Life of balance

**Annual percentage rate*

Late fees and worse if you don't pay before due date

By Michelle de Mooy

Consumer Action's 2008 Credit Card Survey finds that hair trigger penalties, including steep late fees and default penalty rates, continue to threaten consumers when a payment is not received by the due date, and sometimes even on the due date. The strictest deadline was found at Washington Mutual, which expects payments by 1 p.m. Central Time on the due date.

Cardholders who are even one day late – or end up late because of a Saturday or holiday due date – may find themselves in interest rate "purgatory," in which they are hit with a high penalty rate and are unable to regain their regular interest rates under reasonable conditions, such as paying on time for six months. Surveyed default rates this year top out at 31.99% (HSBC).

Timing is everything

Nearly all credit cards surveyed (95%) carried late fees. Just two cards did not: American Express Clear Card and First Command Bank Platinum Card. The average late fee clocked in at $25.90, with most cards ranging from $15-$39.

On 32 cards (78%), late fees would be charged immediately if the payment were not received by the due date. Too bad if your due date falls on a Saturday or holiday, said 29 banks—you'll still be charged a late fee. Just seven of the banks surveyed would give you until the next business day. They are Everbank, Simmons, Washington Mutual, American Express, Pentagon Federal Credit Union and Navy Federal Credit Union. (This may not apply to all cards issued by these lenders.)

Issuers are watching the clock, even if you aren't. According to Consumer Action's survey, midnight is the cut-off time for payments on the due date for seven banks, with others ranging from 1 p.m. Central Time (Washington Mutual) to 7 p.m. (U.S. Bank).

This year's survey has also shown an increase in "tiered" late fees – where the amount of the fee is tied to your balance. Late fees also may cascade so that the first late payment triggers one increase and the second another, even higher, punitive fee. Twenty-eight cards had tiered late fees of up to $39 (averaging $25.89) and 11 cards had flat late fees of up to $35 (HSBC).

There were bright spots in the cloudy skies of late fees. Two cards said they would not apply late fees (American Express Clear and First Command Bank Platinum), but would report payments past due for 30-60 days to your credit report. Capital One offered a leniency period of three days after the due date. Credit unions came out on top, with four of the five surveyed credit unions (Addison Avenue Federal Credit Union (FCU), Pentagon FCU, Golden1 FCU and American Airlines FCU) providing leniency periods of three to 15 days after the due date before a late fee would be charged.

Default rates

Banks across the board are applying default rates swiftly and with little to no warning. Nineteen issuers had default rates averaging 26.87%. Penalty rates ranged from 31.99% (HSBC) to 15.25% (Simmons). Twenty-seven cards said they had variable default rates (tied to the Prime Rate) with 11 banks offering fixed rates. Though most banks would alert you to the rate hike via a letter, American Airlines FCU would not tell you at all about the increase. This is yet another good reason to open your credit card statements when they arrive, and read through them carefully.

Most issuers said that default rates would be automatically imposed due to one or two late payments, going over the credit limit, and after a returned payment or bounced check. Twelve banks will hike your interest rate after just one late payment, including seven of the top ten issuers.

Consumer Action's complete 2008 Credit Card Survey, including a chart listing all cards and a summary of our findings, can be found online at www.consumer-action.org. Click on "CA News," then "2008 Credit Card Survey."

A list of the lowest rate cards found during the survey is at left. ■

Credit card rate increase? What's your option?

What if you want to Just Say No! when your credit card interest rate jumps into the stratosphere? During its 2008 Credit Card Survey, Consumer Action asked issuers if they give cardholders a meaningful right to decline ("opt-out") of a change in terms.

Four of the top ten issuers said yes. Five surveyed issuers in all said cardholders have the right to refuse a rate increase without coughing up the whole balance. In the case of every company except Citi, you lose the card. At Capital One, Chase, Town North Bank and U.S. Bank you can close the card and freeze the old terms while you pay off your balance.

Out of 22 lenders, 10 others said consumers could close their account if they didn't like a change in terms. Seven did not answer the question.

The banks that don't grant their customers the right to pay the balance off over time require cardholders who close their accounts to pay the balances off in full. That leaves most customers with sizeable balances little choice but to accept the higher penalty rate, unless they can find a way to transfer the entire balance to a lower rate card. If your credit card issuer is not one of the surveyed banks, ask if you have the option to pay off the balance over time if you wish to reject a change in terms.

— R.S.

Lowest rate credit cards

Variable Rates

APR	Annual fee	Bank (card name), website
6.00%[1, 2]	$19	Wells Fargo (Prime Rate Card) www.wellsfargo.com
7.00%	None	First Command Bank (Platinum) www.firstcommandbank.com
7.25%[2]	None-$50[3]	Town North Bank (TNB Card) www.cumemberscard.com/tnb
7.99%[2]	None	Addison Avenue Federal Credit Union www.addisonavenue.com; and Citi (Platinum Select), www.citicards.com
8.00%[4]	None	Pulaski Bank and Trust (Iberia Bank Card) http://creditcards.iberiabank.com

Fixed Rates

APR	Annual fee	Bank (card name), website
6.50%	$35	Pulaski Bank and Trust (Classic) www.pulaskibank.org
7.25%	None	Simmons First Bank (Platinum) www.simmonsfirst.com/creditcards
7.90%	None	Capital One (Platinum Prestige) www.capitalone.com
8.90%[2]	$18	Navy Federal Credit Union (goRewards) www.navyfcu.org
9.90%[2]	None	Golden1 Federal Credit Union (Platinum Reward), www.golden1.com

1. APR is Prime Rate.
2. Lowest rate in a range based on applicant's credit history. Generally, only applicants with excellent credit qualify for this rate.
3. Depending on applicant's qualifications and banking relationship.
4. Rate at time of survey. Rates at time of publication are lower. See issuer website.

Interchange fee bill clears House Judiciary Committee

Consumer Action is monitoring legislation that would address the growing costs of credit card interchange fees to merchants and, by default, to consumers.

Major credit card payment networks such as MasterCard and Visa set the prices, and most retailers and merchants have no choice but to accept the fees.

Interchange fees amount to approximately $2 of every $100 spent using credit cards. These fees are built into the price of all goods and services, so even consumers who pay with cash, checks, and food stamp benefits are paying interchange fees.

H.R. 5546, the Credit Card Fair Fee Act of 2008, would allow merchants to negotiate directly with the card associations in an effort to lower interchange rates. Introduced by House Judiciary Chairman John Conyers (D-Mich.) and Representative Chris Cannon (R-Utah), H.R. 5546 has bipartisan support in the House of Representatives.

The process would allow merchants to present their desired rate to the banks and credit card associations, who would then negotiate with them.

On July 16, the House Judiciary Committee passed the bill out of committee on a 19-16 vote. A significant change in the bill eliminated a provision that would have established a review board with the power to make a final binding decision if merchants and the card networks failed to agree. Instead, the revised bill gives this enforcement power to the U.S. Department of Justice's Antitrust Division. Passage by the Judiciary Committee means that the bill can go to the full House for a vote.

Consumer advocates mostly have been supportive of the merchant's point of view. At a March hearing on interchange fees before the Antitrust Task Force of the House Judiciary Committee, U.S. PIRG Consumer Program Director Ed Mierzwinski testified on the need for the legislation.

"Credit card companies make billions of dollars each year through interchange fees, which ultimately all consumers must pay, including the millions of Americans without credit cards," said Mierzwinski. "Low income, cash paying customers subsidize an inflated [credit card] rewards program that benefits only a small portion of cardholders."

Controls have been imposed on interchange in other countries. Visa USA, which has testified to Congress in opposition to any government intervention in interchange fees, says that regulation overseas has "only proved to harm consumers. In Australia ... merchants have increased their profits, while consumers have lost card benefits and choice." ■

— Linda Sherry

Report from the trenches

With a little persistence, you might get the answers Consumer Action is looking for

Everybody has a customer service war story. To be a modern-day consumer is to have experienced endless automated phone queues and snippy representatives.

Consumer Action's annual credit card surveyors go to great lengths to find out how much it might cost a consumer to do business with a credit card company. They know how frustrating it can be to ferret out the answers to dozens of detailed questions. Sometimes you get helpful, informed people, and sometimes—*not!*

To gather the information for the 2008 Credit Card Survey, our intrepid surveyors combed websites for information on 41 credit cards, and talked to multiple customer service reps at 22 issuers while posing as consumers. Their mission: To get answers to 102 questions for each surveyed card.

Surveyor Sheree Jones (a student at the Virginia Institute of Technology and a former telemarketer) found that some of the biggest banks were far more concerned with getting callers to apply on the spot than in providing information.

Jones was especially peeved with her "rude" reception at Bank of America. "One representative answered my questions so fast that I couldn't understand what he was saying. Every time the representative gave me an answer he would ask if I was ready to apply for a card."

Capital One representatives also tried hard to persuade Jones to obtain a card, but "they were still friendly and had a sense of humor."

Some issuers' reps did not have the information to answer some of the more detailed questions and were not always interested in helping us find them.

At several banks, Jones was "ping-ponged between customer service and the application department."

"Citi transferred me the most number of times to different departments," Jones said. "I kept getting transferred between customer service, who could not answer my questions because I was not already approved for a credit card, and the application department, which said they didn't know the answers."

> **Every time the representative gave me an answer, he would ask me if I was ready to apply for a card.**
>
> **— Sheree Jones,**
> *credit card surveyor*

Jones notes that she saw better customer service quality at night, especially with the bigger companies like American Express. "Representatives were more likely to stop and ask a manager rather than transferring me to another department."

At one of the lowest rate credit card issuers, Everbank, Jones was "transferred approximately five times," only to end up with a representative who "raised her voice and asked why I asked so many questions."

Credit unions have better rates but were more likely to screen callers to see if they qualified for membership before providing information. Jones said, "Even though I spoke with a few people at the credit unions, they did not answer my questions. Most credit unions we surveyed had automated systems and even when I pressed 'O' for the operator, I wasn't connected to a human."

Linda Sherry of Consumer Action, who for many years was lead surveyor and who now oversees the survey, said, "It can be difficult to get information from credit card issuers." Some issuers, such as American Express, Bank of America, Chase, Citi and Wells Fargo, do put lots of details about their cards online. But Sherry notes that other top ten card issuers, such as Washington Mutual and HSBC, don't have full disclosures online and customer service reps turn away comparison shoppers who don't have a card offer in hand.

Washington Mutual (WaMu) does most of its card marketing via direct mail "invitations to apply" and offers sent to individuals who have been pre-screened through credit reporting bureaus.

According to Alan Elias, Senior Vice President, Corporate Communications for WaMu Card Services, the most favorable rates are available by mail. "Any consumer who is interested in a Washington Mutual card and is not sent an invitation to apply…can come into a WaMu branch to obtain information about the card and apply. Until they actually apply at the branch, we can only provide a range of interest rates and credit limits for which they may qualify."

Elias noted that consumers do not have to be WaMu bank customers to obtain a credit card from the company.

For several years, Consumer Action surveyors have found it particularly difficult to get information about HSBC credit cards. "Typically, to access details like fees and grace periods, you have to begin the application process, providing personal information about yourself," said Sherry. "We believe people should have access to all the details about cards before they apply."

HSBC's website says, "It is our goal to offer you the credit card that best fits your credit profile, which may or not be the card you originally inquired about."

"HSBC is committed to ensuring that information on card terms is clear and useful for the consumer to make an informed decision when applying for and using a card," said Cindy Savio, Associate Vice President, Public Affairs for HSBC-North America. "Our advertisements on our card websites meet the requirements of laws and regulations applicable to credit cards."

Savio adds that "during the application process, consumers can review all the specific terms and conditions for the card they qualify for and then choose to accept (or decline) such terms before they agree to finalize their application."

"Every year, it grows a little more difficult to get the answers to even basic questions from credit card issuers," said Sherry, who has worked on the annual survey since 1994. ■

Know your credit limit?

If credit limits are slashed, punishingly high interest rates may follow

By Ruth Susswein

If you're planning to use your credit card to make a big purchase, you may want to check your card's line of credit before you pull out the plastic.

Credit card companies regularly review the credit scores of account holders to determine whether or not they might become poor financial risks. If you are targeted as someone who might become risky and fail to pay the debt, some companies might reduce your credit limit.

During Consumer Action's 2008 Credit Card Survey, customer service representatives at six financial institutions (American Express, First Command, HSBC, US Bank, Washington Mutual and Wells Fargo) told our surveyors that they would reduce cardholders' credit limits because of perceived customer risk. The factors included a decline in cardholder credit scores, late payments and balances that go too close to the credit limit.

Several of the banks that said they do not reduce credit limits told us just the opposite in 2007. They are Bank of America, Chase, Citi, Discover, EverBank. With the exception of Citi, which made a pledge not to change cardholder terms until their cards have expired, we believe it is unlikely that these banks have changed their policies.

This summer, almost 18% of the 1,069 consumers who participated in Consumer Action's Credit Limit Survey said their banks had lowered their credit limits. About half (9.2%) said they'd seen their credit lines drop in 2008. *(For more about this poll, see page 1.)*

Cardholders have also reported to Consumer Action's complaint hotline that credit lines were reduced with no warning.

Unsavory practices

Consumer Action has identified some unsavory credit limit practices. Each in its own way puts consumers at greater risk of being charged higher interest rates, falling deeper in debt, and causing a ripple effect among issuers. In the past, Consumer Action said that in most cases lowering limits is a better way to manage cardholder riskiness than hiking interest rates. But this year, consumers have told Consumer Action about some credit limit practices that we believe are just plain unfair.

- **Following you down.** As consumers pay off large balances, the credit limit is reduced so that the balance is always close to the credit limit.
- **Sorry, you're over limit.** Credit limits are reduced to levels lower than the current balance, triggering over limit fees and requiring a large "balloon" payment of the over-due amount. This practice also puts you at risk of being hit with a penalty interest rate.
- **Where's my credit limit?** You try to use your card, it is declined and you find out your limit has been reduced with no warning.
- **Ganging up on you.** One of your credit cards lowers your credit limit, which lowers your credit score, which causes another of your cards to lower your credit limit.

Not only can your credit line shrink, but your interest rate may increase sharply. There can be a direct correlation between the two. If you begin to use more of your credit line, your card issuer may take it as a sign that you pose a greater risk of defaulting on your card. That can translate into higher interest rates even though you never paid late or exceeded your limit.

Lower limit, lower score

Your credit score is a number derived from your credit usage and payment history. Card issuers use your credit score to weigh your level of credit risk. Score formulas take into account how much of your available credit you are using.

If you carry a $450 balance on a card with a $1,000 credit line you are using 45% of your limit. As you use more of your credit line, you may find that your credit score takes a hit.

"A lower credit limit may hurt your credit score. The lower your credit score the more expensive it is for you to borrow money," said Ken McEldowney, Consumer Action executive director.

When one card lowers your credit limit, you may find that others follow. One of your credit cards lowers your credit limit, which lowers your credit score, which causes another of your cards to lower your credit limit.

To maintain access to credit at competitive rates, try to use no more than 50% of any of your available credit lines.

"And watch your statements and other mailings from the credit card company, to make sure you know your limit," said McEldowney. ■

Authorized users still get credit

Fair Isaac announced on July 31 that it will include credit card "authorized user" accounts in the calculation of its FICO®08 scoring model.

The company said it found a way to restore authorized user credit and still reduce intentional credit score tampering from the abusive, possibly illegal practice known as "piggy-backing."

Piggy-backing is a credit repair scam in which loan applicants who don't meet a lender's credit requirements could buy authorized user status on another person's credit card account.

Authorized users are issued a card on the primary user's account but are not liable for paying the charges. Fair Isaac estimates that more than 50 million U.S. consumers are legitimate authorized users on another person's credit card.

The company said it will bring the new score to market as quickly as possible. ■

Credit union credit cards (sometimes) rate

By Michelle de Mooy

Conventional wisdom holds that credit unions – nonprofit banking institutions owned by their members – treat their members better than traditional banks treat their customers. When it comes to credit cards, there's some truth to the adage.

Credit unions are nonprofit savings and lending organizations that provide services to members who have a common bond, such as working for the same company, living in the same community or belonging to the same church or union. Just like banks, credit unions offer checking and savings accounts, debit and credit cards and investment services.

For the first time this year, Consumer Action added the six largest national credit unions to its 2008 Credit Card Survey. Overall, most of the credit unions surveyed offered members lower interest rates, more flexible terms, and fewer penalties compared to banks.

However, the survey also found that some credit unions employ credit card practices that are not member-friendly, including universal default rates based on a cardholder's record with other creditors and "anytime, any reason" change in terms provisions.

Transferring a balance

Credit union cardholders can sometimes expect better deals when transferring balances, as two of six credit unions surveyed had no balance transfer fee. They are Digital Federal Credit Union (FCU) and Navy FCU. Pentagon FCU charged a 1% fee and Golden1 FCU charged a 2% fee. (An answer could not be obtained from two others.) A 1% or 2% fee is smaller than at the top ten bankcard issuers – all charged a hefty 3% balance transfer fee. Only one surveyed card from a top ten issuer – American Express Clear Card – had no balance transfer fee.

Interest rates

While most banks featured introductory offers of 0% on balance transfers, two of the six credit unions – Addison Avenue FCU and Pentagon FCU – offered balance transfer teaser rates of 3.99% and 5.99% respectively. (Golden1 charged purchase APRs of 9.90%-16.00% for balance transfers but waived the balance transfer fee for the first 90 days. Consumer Action could not obtain a response from three credit unions.

Seven issuers (all were banks—including four of the top ten) promised the teaser rate for one year. Nine other banks and one credit union (Addison Avenue) offered six-month teasers. Wells Fargo had a 90 day offer. Pentagon FCU offered 5.99% for the life of the balance.

Ubiquitous fees

Fees are bread-and-butter for credit cards issuers – and credit unions are no exception. However, at least at our surveyed institutions, credit unions appear to charge members less in fees than traditional banks. One credit union (Navy Federal) did have an annual fee of $18, compared to the 85% of surveyed cards with no annual fees.

More leniency

Eleven of all surveyed cards had flat late fees. Addison Avenue FCU and Golden1 FCU had the lowest flat fees ($15) while a bank (HSBC) had the highest flat fee of $35. Only two cards in the whole survey (American Express Clear and First Command Bank Platinum) charged no late fee—and neither is issued by a credit union.

Credit unions are generally more forgiving about late payments, with four of the six surveyed credit unions (Addison Avenue FCU, Pentagon FCU, Golden1 FCU, American Airlines FCU) offering leniency periods of 3-15 days after the due date in which no late fee is charged.

Non-business due dates

It's wise to mail your payment in plenty of time before the due date as the vast majority of all surveyed cards (29 of 41) would charge a late fee if payment was received on a holiday or Saturday. Two credit unions, Pentagon FCU and Navy FCU, and five bank issuers would not charge a late fee in that case.

Over your limit

Two credit unions (Golden1 and Navy FCU) offered low over limit fees ($10). Other credit unions ranged from $15 to $30, which still compares favorably with bank issuers' fees of up to $39. Only the American Express Clear Card and cards at First Command Bank had no over limit fees.

Overseas transactions

Are you going shopping abroad, or buying from an overseas company online or by phone? Your credit union card is happy to help convert your dollars into dineros – minus a fee. Four out of six credit unions charge a fee for foreign transactions online or by phone, along with nine other issuers. Only one credit union – Addison Avenue FCU – said it does not. (Navy FCU did not answer this question.) All of the credit unions, except for Digital FCU, charge 1% of the purchase amount, while most banks charge 2% or 3%.

Terms, they are a'changin

Credit unions mostly reserve the right to change rates "any time for any reason" as well as employing universal default (raising your interest rate based on your credit score or payment record with other companies). Out of 22 institutions questioned, Golden1 FCU was the sole credit union to say that it does not change rates "any time for any reason." (No answer could be obtained from Navy FCU.) All top ten credit card issuers will change terms "any time for any reason."

Golden1 and Addison Avenue were the only two credit unions to say that they do not raise rates on a consumer who pays his balance on time every month but has a poor payment record with another company.

Watch your credit score

Keep a close eye on your credit score, as three credit unions said they would hike your interest rate if your credit score got worse. They are Addison Avenue FCU, American Airlines FCU, and Digital FCU. Digital also had a laundry list of reasons why they would increase a member's rate including: too many inquiries on your credit report, too much debt, too many credit cards, paying another company late or defaulting, and debt to income ratio. Though the majority of lenders said they would notify a cardholder of a rate change via letter, only American Airlines FCU said it would raise rates without notifying cardholders.

Authorized users

Half of the credit unions surveyed had a minimum age requirement for authorized users on another person's account. Membership ranged from age 15 to 18 at Addison Avenue FCU, Digital FCU, and Pentagon FCU. Three of six did not stipulate an age. (Eight bank issuers also had no minimum age.) Banks that did have minimum age standards ranging from age 14 to 18.

For further details on Consumer Action's 2008 Credit Card Survey go to www.consumer-action.org and click on "CA News," then "2008 Credit Card Survey." ■

Can you join a credit union?

Not everyone is eligible to join a credit union, but there may be more opportunities than you think. To jump start your search, CUNA, a association for credit unions, offers these tips to help you find a credit union:

Give Human Resources a call. Your company may sponsor a credit union, or be part of an employee group that has access to a credit union.

Ask family, friends and neighbors. Does your spouse's employer sponsor a credit union? Some credit unions are open to everyone in the community.

Dial CUNA's toll free number. At 800-358-5710 you can listen to a message that will give you the name and number of the credit union league liaison in your state.

Search online. CUNA offers a credit union locator at www.findacreditunion.com, where you can search by city and state and type of credit union. ■

Signing away your rights?

Many businesses block your rights to go to court, even before you have a problem

By Michelle de Mooy

An overwhelming majority of banks require binding mandatory arbitration to settle disputes with their cardholders, Consumer Action's survey found – again – this year.

Mandatory arbitration is a system that takes justice outside of the courtroom and into a private company of arbitrators, often chosen by your bank.

Just by using your credit card, you are probably agreeing to submit to arbitration for any problems that may arise.

The sad reality is that consumers lose nearly every time disputes are taken to arbitration. According to a 2007 study by Public Citizen of arbitration cases in California, 94% of more than 19,000 cases studied had been decided in favor of businesses, not consumers.

Most arbitration provisions can be characterized as "binding" and "mandatory" because you have neither the right to sue in a courtroom nor to appeal an arbitrator's decision. Consumer and legal advocacy organizations (including Consumer Action) oppose pre-dispute arbitration on a mandatory basis. "Pre-dispute" refers to the fact that people who enter consumer contracts often are asked to sign away the right to a court trial even before something goes wrong.

Difficult to avoid

Consumer Action found that binding mandatory arbitration was required on 87% of cards surveyed on which yes or no answers could be obtained (31 cards). Survey results included three "don't knows" and we were unable to obtain this information on seven cards. Three cards (Addison Avenue Federal Credit Union (FCU), Golden1 FCU and Simmons First) said they do not require arbitration, and Discover allows new cardholders to decline arbitration if they notify the bank within 30 days of receiving their cards.

Multiple customer service representatives at HSBC and Wells Fargo answered "no," but they are probably mistaken because these institutions are known to use binding mandatory arbitration clauses in their credit card and banking agreements.

Legislative fixes?

Several bills aimed at eliminating binding arbitration from consumer agreements have been introduced in Congress this term. They include the Arbitration Fairness Act of 2007 (H.R. 3010 and S. 1782) by Rep. Hank Johnson (D-GA) and Senator Russ Feingold (D-WI).

These bills would make pre-dispute binding mandatory arbitration unenforceable in civil rights, employment, consumer and franchise disputes, so consumers and small businesses would not be forced to sign away their rights to legal protections and access to the courts before a problem even arises.

Representative Linda Sanchez (D-CA) introduced a bill that would prohibit certain uses of arbitration in consumer automobile contracts. The Automobile Arbitration Fairness Act (H.R. 5312) would protect consumers from pre-dispute mandatory arbitration requirements. When buying a car, many dealers include binding mandatory arbitration provisions in the sales contract, which takes away the car buyer's right to pursue claims in court. Often, consumers are not aware that they are waiving their rights to bring a lawsuit if something serious goes wrong with the car. Consumers are forced to bring cases in private arbitration forums that tend to favor the dealerships.

S. 2838, the Fairness in Nursing Home Arbitration Act, was also introduced to invalidate pre-dispute mandatory arbitration provisions in nursing home, assisted living and other long-term care facility contracts.

For more information on how mandatory arbitration negatively affects consumers, visit the "Give Me Back My Rights" coalition website (www.stopbma.org). ■

Senator Robert Menendez (D-NJ) announces his credit card legislation, Senate Bill 2753, at a press conference on Capitol Hill this spring attended by consumer and civil rights advocates, including Consumer Action. (Amanda Montez Photo)

Legislative plans to curb credit card abuses

By Ruth Susswein

While regulators have been busy creating ways to crack down on unfair credit card practices this year, Congress also has turned its attention to protecting consumers from some indefensible industry tactics.

Congresswoman Carolyn Maloney's (D-NY) Credit Card Bill of Rights (H.R. 5244) attacks the one-sided "any time, any reason" loophole that card issuers use to punish customers with unannounced, unexpected higher rates and fees. These "bait and switch" tactics push consumers deeper in debt and make it more difficult to meet other financial obligations.

The Credit Card Bill of Rights would improve upon what regulators have proposed. It would:

• Require card issuers to mail billing statements 25 days before the due date, giving you the ability to make payments on time.

• Prohibit late fees if you can provide proof that you mailed the bill seven days before the due date.

• Prevent over limit fees for cardholders who have chosen a fixed credit limit.

• Improve the information collected on rates, fees and industry profits, and report the findings to Congress.

Historic action

On July 30, Rep. Maloney's bill was passed out of the Financial Services Committee, the first time in more than a decade that new consumer protections for credit cards have gotten out of committee.

The Credit Card Reform Act (S.2753) introduced by Senator Robert Menendez (D- NJ) would ban outright all changes to the credit card contract and eliminate "universal default." This is the practice in which a card issuer raises interest rates – even if you always pay on time – because of a higher balance, credit score decrease, or late payment on another card.

The Menendez bill also would limit penalty interest rate hikes to no more than seven percentage points above the previous rate. (Senator Carl Levin's credit card bill, S.1395, also includes this provision).

The Credit Card Reform Act would prohibit late fees if a payment were postmarked by a certain date, regardless of when it was actually received. The bill would also reduce aggressive marketing to students by requiring people under age 21 to consent, or "opt in," to receive credit card offers.

S.2753 would also redefine the term "firm offer of credit." It would require card issuers to disclose the specific interest rate, fees and credit limit being offered. If the consumer still meets the criteria, then the offer would have to be honored.

At a time when consumers' credit options are dwindling and many find themselves deeper in debt, Senator Diane Feinstein (D-CA) has introduced the Credit Card Minimum Payment Notification Act (S.2542) to alert consumers to the hazards of making only the minimum payment each month.

The legislation would require those who make only minimum payments (for six months in a row) to receive a personalized notice explaining how long it would take and how much it would cost to eliminate the debt. S.2542 also would require issuers to provide cardholders with a toll free number to an accredited credit counseling service.

The most consumer friendly credit card bill is S.3252, introduced in mid July by Senator Christopher Dodd (D-CT).

Dodd's Credit Card Accountability, Responsibility and Disclosure Act (Credit CARD Act) would:

• Prevent "any time, any reason" changes in rates and terms.

• Prevent card issuers from arbitrarily changing the credit card agreement in the middle of the contract.

• Require that penalty rates apply only to future debt and be limited to six months if cardholders maintain a clean payment record.

• Require payments to be applied first to the credit card balance with the highest rate.

• Ban interest charged on fees.

• Ban fees for online or phone payments.

• Require responsible lending to people 21 years and under by demanding a cosigner, proof of income, or financial literacy classes before credit is granted.

If you are interested in supporting these bills, or reviewing other credit related legislation, visit Consumer Action's website at www.consumer-action.org and click on Take@ction. You can contact your lawmakers directly from the Take@ction Center and let them know you endorse (or oppose) their efforts. ■

'Armchair travelers' pay for foreign transactions, too

By Linda Sherry

Both Visa and MasterCard now charge fees to credit card issuers when the cardholder makes a credit card transaction online or by phone that is processed by an overseas bank. The fees are charged by the payment processing associations to member banks, and nothing in Visa or MasterCard rules prevents the bank from passing along the charge to the cardholder.

Consumer Action has tracked foreign transaction fees for the past four years to keep consumers who travel abroad informed about potential added costs. In 2005, we reported that MasterCard charged its member banks about 1% of the purchase price not only when cardholders use their cards in a foreign country, but also when they made purchases online or by phone from an overseas vendor. In April of this year, Visa also began to charge "armchair travelers" a similar fee.

Visa calls its fee an "international service assessment" and MasterCard labels its a "cross border transaction fee." If charged, the fees must be broken out on your credit card statement. Card issuers can pass along the fee, absorb it, or even pad it with their own charges.

"In our increasingly global economy, many consumers may see these fees," noted Ruth Susswein, deputy director of national priorities for Consumer Action.

Even in dollars

For example, the fee could be charged if you purchase something from a foreign seller on eBay, or if you go directly to the website of a foreign airline to purchase a ticket. The fee can be charged even when you pay for your purchase in dollars but the transaction is processed by a foreign bank.

Both MasterCard and Visa charge a smidgen less than their usual 1% foreign transaction fees if the transaction is made in dollars with a foreign bank and no currency conversion is required.

Consumer Action learned of the Visa change this spring as it conducted its 2008 Credit Card Survey. *(A chart listing currency conversion fees appears below.)* Only one of the top ten issuers, Capital One, does not charge a currency conversion fee and absorbs the 1% fee by MasterCard and Visa to convert currency.

We asked surveyed issuers if they charged the foreign transaction fee when items are purchased online or by phone from a business in a foreign country.

Only five issuers said no—Addison Avenue FCU, Arkansas National Bank (since closed), Capital One, Discover and Wells Fargo.

It is unclear which card issuers will pass along Visa's new "international service assessment" fee on purchases made in U.S. dollars. Bank of America, which does have a 3% currency conversion fee for transactions made in a foreign currency, has said it will not. ■

Surveyed issuer	Fee*
Bank of America, Chase, Citi, Digital Federal Credit Union (FCU), HSBC, Town North Bank, U.S. Bank, Wells Fargo	3.00%
American Express, Pulaski Bank and Trust, Simmons First	2.00%
Addison Avenue FCU, American Airlines FCU, Everbank, First Command Bank, Golden1 FCU, Navy FCU, Pentagon FCU, Washington Mutual	1.00%
Capital One	No fee
Discover	No fee**

**Percent of amount converted from foreign money*

***Accepted overseas only in Canada, Central America, Mexico, the Caribbean and China*

Rules proposed to prevent credit card tricks and traps

By Ruth Susswein

Tens of thousands of consumers who felt tricked or trapped by their credit card companies have complained to the Federal Reserve this year, in response to new proposed rules by the Fed and other federal regulatory agencies that would curb some highly abusive practices. The agencies expect to finalize rules by the end of the year.

The federal agencies have proposed changes to the Truth in Lending Act (TILA) that would label some practices by card issuers as "unfair and deceptive." Some of the proposals would save consumers money and reform the way credit card companies do business.

"The proposed rules are intended to serve as a new baseline for fairness in how credit card plans operate," said Federal Reserve Chairman Ben Bernanke.

Rate hikes reduced

The federal agencies' most wide reaching proposal is to end expensive "retroactive" interest rate hikes by forbidding credit card issuers from raising the interest rate on existing credit card balances unless the cardholder's payment is more than 30 days late. Currently, many card issuers apply much higher "default rates" when cardholders are even a day late.

Card issuers would still be able to raise interest rates but increased rates would be limited to new transactions, not the existing balance.

Unfortunately, the federal agencies did not place limits on default rates. In its 2008 Credit Card Survey, Consumer Action has found default rates as high as 31.99% (HSBC).

Play fair, pay fair

If you carry a costly cash advance balance plus another balance (such as purchases or balance transfers), payments typically are applied to the lower rate balance first. Under these "payment allocation" practices, your high rate balance typically grows unchecked, collecting high interest each month, until you have paid off the lower rate debt.

The federal agencies have proposed a way to make issuers apply payments more fairly by allocating some of the amount you send in to the higher rate balance. This would help you retire the debt much more quickly, and save you money on interest.

The federal agencies also would ban interest charges on debt that has already been paid off. This tricky tactic is known as "double cycle billing." The rules would require card issuers to charge interest based only on the current billing cycle.

Under the proposed rules, consumers would be entitled to a grace (interest free) period on purchases even if they were carrying a balance transfer promotional offer. Currently, anyone carrying any balance loses the grace period on new purchases. The proposal would ensure that people who transfer a balance and then make purchases on the card are still eligible for an interest free period between the close of the billing cycle and the due date if they pay the purchase balance in full each month.

45-day notice

Under new rules proposed by the Federal Reserve to amend Regulation Z of the Truth in Lending Act, any changes made to the credit card contract would require a 45-day advance notice. This rule would include penalty rate increases as well as risk-based changes in terms not covered by current notification rules.

Credit card companies would be required to deliver your bill at least 21 days before the due date. Current law gives you only 14 days to get your bill and pay it, although many card companies send the bills earlier.

In response to the federal proposed rules, Consumer Action sent comments asking the federal agencies to strengthen the requirements to protect consumers even more. The organization recommended that federal agencies:

- Ban penalty rate increases on credit cards if the increase is due to activity on another card, a change in your credit score (called universal default), or because of market conditions.
- Limit penalty interest rate increases to seven percentage points above the original rate.
- Require that penalty fees be related to the increased cost (if any) that a card company incurs from the cardholder's action.
- Prohibit companies from changing the cardholder agreement during the life of the contract without written consent from the consumer.
- Eliminate mandatory arbitration clauses from credit card contracts that force consumers in credit card disputes to give up their rights to a public trial and all future appeals.

Risk based pricing

The Federal Trade Commission (FTC) joined the Federal Reserve in proposing rules when a lender uses a credit report to assess risk in its lending process. This is called "risk based pricing."

If you receive a higher interest rate than some customers, or less favorable terms than others, creditors would be required to let you know about it. The lender would have to provide a notice before cardholders can be considered contractually obligated.

Companies that choose not to send the risk based pricing notice, could instead send all customers their credit scores with an explanation of what the number means. ■

Reward cards are still hot

But don't get burned by cash back, travel, vehicle and 'hybrid' awards

By Michelle de Mooy

Reward cards are hotter than ever with consumers – and continuing to burn those who don't read the fine print.

In Consumer Action's 2008 Credit Card Survey most of the cards surveyed (68%) offered rewards, including cash back and travel "hybrids" – discounts on gas, travel, or merchandise – and even a rebate towards the purchase of a pre-selected GM car.

Some of the most popular deals continue to be "cash back" programs, where customers receive 1% to 6% of expenditures back in either a check or money off future purchases. Other reward cards rack up "points" which can be redeemed for various items, or offer people discounts at certain hotels, stores, restaurants and gas stations.

Unlimited rewards

Good news: Reward limits are fewer this year. Many issuers are not capping how much of a reward you can earn. The no-limit offer applies to cash back as well as miles and merchandise rewards programs. American Express, Addison Avenue FCU, Bank of America, Capital One, First Command, HSBC, Navy FCU, and US Bank offer no-limit programs. For a complete breakdown of rewards programs go to www.consumer-action.org and click on "CA News," then "2008 Credit Card Survey."

While cash back, gas and grocery reward credit cards may add a helping hand in today's economy, be aware that reward cards often carry higher interest rates than traditional credit cards. The 2008 survey found reward rates varied from a low of 7.99% (Addison Avenue) to as much as 22.75% (Wells Fargo).

Rate variations can be found at the same issuer. Take Citi for example, Citi's Platinum card APR ranges from 7.99% to 12.99%, while Citi's Preferred Rewards card runs from 10.49%-15.49%, depending on your credit history.

"Of course the consumer who makes out best with these cards is the one who carries no balance so she doesn't have to worry about the rate. She can just focus on the reward," said Ruth Susswein, Consumer Action deputy director of national priorities.

Despite signing up in record numbers, more and more consumers aren't even using their rewards. A survey by GMAC Mortgage and Harris Interactive found that more than 41% of reward cardholders either rarely or never bother to use their rewards.

To get the most back from your card:

Look for little to no limit. While many of the cards are not capping how much you can earn this year, some do still have expiration dates. So, as we've advised before, use it or lose it. For instance, you'll want to use your Citi, Wells Fargo, or Bank of America points before they expire in five years.

Keep your cards rewarding. Avoid annual fees and higher interest rates by not carrying a balance on a rewards card or the cost may quickly outweigh the reward. What's more, if you pay late, you may lose the rewards you earned in the current billing cycle.

Cash remains king. Rewards points may end up unused but cash back accumulates without you having to do anything but pay with plastic, plus it's still accepted anywhere.

Beware of hidden costs. Some airlines have reported that they plan to start charging people to redeem frequent flier miles. While you can't predict when fees will be tacked on, you can choose rewards that you are most likely to use and redeem relatively quickly. ■

Five questions to ask about any credit card

1 What is the interest rate?
Is there an introductory rate and how long does it last? How high can my interest rate go? Why would my interest rate increase?

2 What fees could I be charged, and why?
How can I avoid these fees?

3 How can my account terms change?
How will you inform me of any changes in my contract?

4 What services do you provide to help me honor the terms of my cardholder agreement?
Free payment options; alerts for over-limit purchases; a leniency period before late fees are charged, etc.

5 What's in it for me?
Rewards, rebates, balance transfer opportunities, etc.