Consumer Action

www.consumer-action.org

PO Box 70037
Washington, DC 20024
202-544-3088

221 Market St, Suite 480
San Francisco, CA 94105
415-777-9648

523 W. Sixth St., Suite 1105
Los Angeles, CA 90014
213-624-4631

CONSUMER ACTION RELEASES ITS 2008 CREDIT CARD SURVEY

Credit Card Traps Can Catch Even Good Customers

FOR IMMEDIATE RELEASE: Contact: Linda Sherry, 202-544-3088,
Ruth Susswein, 301-718-2511
Joe Ridout, 415-777-9648

Note to editors: Consumer Action's complete survey is available at www.consumer-action.org. Click on CA News, then 2008 Credit Card Survey.

July 23, 2008—Despite hard economic times, you are a good credit card customer. You pay your bill on time and stay within your credit limit. Your credit card company can't change your terms, right?

According to Consumer Action's annual *2008 Credit Card Survey*, released today, this belief is dead wrong. According to the survey, these practices are putting even good customers at risk:

- Any time, any reason changes in terms
- Reductions in cardholder's credit limits
- Default rate "purgatory" – once in, you may never get out

Consumer Action's *2008 Credit Card Survey* details new credit card traps that result in sharply higher interest rates for consumers.

Notable findings

- Three of the top ten credit card issuers cited factors beyond a consumer's control that might cause an interest rate increase such as: "market conditions," "the economy," and "business strategies."

- 77% of surveyed credit card issuers (17 of 22) answered "Yes" to the question "Can you increase my APR or change my terms 'any time for any reason'?" This includes all top ten issuers – even Citibank which pledges not to change a customer's terms before the card's expiration date.

- Five financial institutions told CA surveyors that they would reduce a cardholder's credit limit because of perceived customer risk. Factors include: a decline in credit scores, late payments and balances that get too close to the credit limit.

Any time, any reason

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

Consumer Action also reviewed online disclosures at the top five credit card lenders: Bank of America, Chase, Citi, American Express and Capital One. In each instance, the rates could change for a host of reasons, often unbeknownst to the consumer.

"All top five issuers write themselves a blank check to change rates," Sherry said, noting that Citi has pledged not to change a cardholder's rate until the card expires.

In this year's survey, 10 institutions – or 45% – of the banks answered "yes" when asked, "Do you raise my interest rate because of my credit record with other credit cards or lenders?" (Six of the top ten issuers – Chase, Citi, Discover, HSBC, US Bank and Washington Mutual – are included in this list.)

Some institutions explained that such increases don't happen "solely" because they missed payments with other credit cards or lenders, but are usually based upon a formula that includes risk as determined by the cardholder's credit score.

'Market conditions'

New to the list of reasons to hike rates is "market conditions." This loophole has already led to rate hikes for large groups of customers at Bank of America and Capital One.

Representatives for Bank of America, Capital One and Citi cited "market conditions," "the economy," and "business strategies" as factors that might cause an interest rate to increase.

"What this means to even the best customers is that a perfect payment history is not a safeguard," said Sherry. "If a car dealer was having a lousy year, he wouldn't be able to use that as an excuse to raise interest rates on car loans, but that same standard doesn't apply to card issuers."

Other factors used by issuers to hike interest rates are:

- Worsening credit scores
- Paying another company late
- Too many credit cards
- Too much debt
- Too many inquiries on the credit report
- Default payments
- Debt-to-income ratio
- Defaults with other creditors

Slashing the credit limit

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

American Express, First Command, US Bank, Washington Mutual and Wells Fargo told our surveyors that they would reduce cardholder's credit limits because of perceived customer risk.

Several 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 and HSBC. With the possible 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.

Unsavory credit limit 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. Consumers have reported some credit limit practices this year that are patently 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 the consumer at risk of being hit with a penalty interest rate.
- *Where's my credit limit?* Cards are declined at the point of purchase, and only then do cardholders find out that their limits have been reduced with no warning.
- *Ganging up on consumers.* One credit card lowers your credit limit, which lowers your credit score, which causes another of your cards to lower your credit limit.

"With tactics like these, we should put lowering credit limits right up there with abusive practices like risk-based interest rate hikes on the existing balance and hair-trigger late fees when the payment is not received on the due date," said Sherry.

Default rate 'purgatory'

Once a cardholder's rate is raised, how soon can he or she get back to the original rate? According to the survey, eight issuer reps could not provide an answer; four said no, you couldn't return to the original rate. Ten said yes, the cardholder might eventually qualify for a lower rate. Most issuers that indicated the rate could be lowered said 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 a rate reduction would be considered.

“It is totally unfair to keep people at a higher rate forever, if 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 even one day 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 was 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. While the penalty rate average was higher this year, fluctuation in the prime would account for the top default rate being somewhat lower this year, as the Prime Rate index dropped from 7.25% to 5.25% during our 2008 surveying period.

Opting out of a change in terms

Consumer Action asked issuers if their customers have the right to “opt-out” of a rate increase.

Out of 22 lenders, five said consumers could opt-out. Ten lenders said consumers could close their account. Seven did not answer the question.

Five surveyed issuers give cardholders the ability to reject a change in terms without paying off the balance in full—if they notify the issuer within a specific period following the change in terms. The issuers are Capital One, Chase, Citi, Town North Bank, and US Bank. (Town North Bank is not one of the Top Ten issuers.)

In-house universal default

Change-in-terms provisions at larger banks may include a little known risk assessment tool that could be called “in-house universal default.” Consumer Action has learned from discussions with issuers that in this era of large conglomerate financial services institutions, many companies assess customer risk across all their products.

For instance, a consumer with a checking, mortgage and credit card account from the same institution is placed in an especially precarious position. While many card issuers say they do not use ‘universal default’ (risk-based pricing determined by how customers perform at other financial institutions), they do look at all customer relationships under their own umbrellas.

For instance, a consumer who bounced a check or pays the mortgage late on other in-house accounts could get hit with an interest rate hike on a credit card. This is a clear downside to the oft-touted convenience of having all of your financial services at one institution and may affect multiple account holders at large banks such as Chase, Bank of America and U.S. Bank.

Annual percentage rates (APRs)

We examined 41 cards from 22 financial institutions, including the top 10 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 (7.25%, 6.00%, 5.25%) during the survey.

Interest rates ranged from 6% (Prime Rate Card, Wells Fargo) to 22.75% (highest rate[1] on Well Fargo's Cash Back Card). The 2008 average purchase rate of 13.54% was about one percentage point lower than our 2007 finding of 14.53%.

The 29 variable rate cards we surveyed averaged 14.25%, one percentage point lower than the 2007 average of 15.25%. (In 2005 variable rate cards averaged 12.96%.) The 2008 range is the same as described above for the overall survey.

This year, we surveyed 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 2008 range on fixed rate cards is 7.25% (Simmons First Platinum Card) to 18.99% (Discover Open Road and More[1] 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, with the same range as this year.)

Other 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.

• 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).

---

[1] On this card, like many other credit cards, the rate depends on the applicant's credit rating. Many companies provide a range of rates that a potential cardholder might qualify for. In this case, the rates on the Wells Fargo Cash Back card were 13.10% to 22.75%.

• 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) does not charge foreign currency transaction fees.

• Surprisingly, despite the credit crunch, 13 surveyed cards (32%) offered Zero% introductory ("teaser") rates on new purchases. Most teasers lasted for six months, although Citi and HSBC had offers of up to 12 months. On balance transfers, 19 cards (46%) had Zero% intro rates, some available for up to 12 months.

• 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, Golden 1 FCU and Simmons First) said they did not require arbitration, and Discover allowed cardholders to decline the arbitration clause if they notified the bank within 30 days of receiving their cards.

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 web sites 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 duplicative answers. The 2008 survey intake form contained 102 questions.

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 web site (www.consumer-action.org).

Consumer Action has compiled a report containing details of all 2008 survey findings in the following areas. The report can be viewed online at http://www.consumer-action.org/news/articles/2008_credit_card_survey.

The summary includes findings for:

- Card Fundamentals (annual fees, grace periods, purchase APRs, margins and indexes for variable rate cards)

- Cash Advances (cash advance APRs, margins and indexes for variable rates, cash advance fees, minimum and maximum cash advance fees)
- Introductory Rates (introductory “teaser” APRs for purchases, cash advances and balance transfers, balance transfer fees, minimum and maximum balance transfer fees, balance transfer fee waivers, conditions of keeping introductory rates for a given term)
- Rewards (credit card rewards, points, rebates, etc.)
- Default Rates (highest stated default APRs, margins and indexes for variable default rates, why default rate would be applied, number of late payments that would trigger the default rate, how long until a cardholder can move back to a regular (or lower) rate, whether the credit limit would be reduced because of perceived customer risk)
- Other Fees (late payment fees—flat and tiered, when late fee will be charged, late fees if due date falls on a non-business day or holiday, specific time that payments are due on the due date, phone payment fees, online payment fees, expedited payment fees, over limit fees, returned payment fees, foreign transaction fees)
- Finance Charges (balance calculation method, monthly minimum payment calculation method, residual interest practices)
- Change of Terms (“any time, any reason changes,” universal default, reasons for interest rate hikes, notification methods for change of terms, how to get back to a lower rate, rights if cardholder does not agree to new terms, opt-out provisions if cardholder does not agree to new terms)
- Miscellaneous (minimum age for authorized users, credit reporting practices, binding mandatory arbitration provisions)

# # #

Consumer Action, founded in 1971, is a non-profit education and advocacy organization based in San Francisco, CA, with offices in Washington, DC, and Los Angeles, CA.