

Credit Card Case Histories: Eight Examples of Unfair Interest Rate Increases

The following eight case histories are the result of a bipartisan investigation of the U.S. Senate Permanent Subcommittee on Investigations into unfair credit card practices. These histories detail the experiences of individual consumers who paid their credit card bills in compliance with the terms set by their credit card issuers, but whose interest rates were nevertheless increased. Each case history includes a brief description of the cardholder and circumstances surrounding the interest rate increase, as well as a chart with specific data related to their credit card account.

The data contained in these charts is taken from the credit card billing statements sent to the cardholders. Because purchases made in one month typically appear on the billing statement sent out in the next month, the charts synthesize data from two consecutive billing statements. The first three columns of the chart identify the month in which the closing date occurs for purchases that were or could have been made on the credit card, the interest rate applicable to such purchases, and the total amount of purchases actually made during the billing month. The next three columns identify the total amount of funds paid by the cardholder each month, and show how much of that payment went to pay for fees or interest charges and how much to reduce the cardholder's actual debt. The final column of the chart shows the cardholder's overall balance – the entire debt owed on the credit card – after the payment was made.

Here is a sample chart for illustration:

| ABC Credit Card | | | Credit Limit: \$4,500, increased to \$5,500 in 2/07 | | | |
|---------------------------|----------------------|------------------|--|----------------------------|-------------------------------|------------------------------|
| Transaction Period | Interest Rate | Purchases | Applicable Payment | Amount Paid Toward: | | Balance after Payment |
| | | | | Interest and Fees | Reduction in Principal | |
| Jan. '07 | 10.00% | \$100.00 | \$300.00 | \$135.00* | \$165.00 | \$5,000.00 |
| Feb. '07 | 15.00% | \$0.00 | \$300.00 | \$179.00** | \$121.00 | \$4,879.00 |

*Includes \$39 over-the-limit fee.

**Includes \$39 late fee.

Explanation: In January 2007, the cardholder purchased \$100 worth of goods. The interest rate applicable at that time was 10% and the credit limit was \$4,500. After receiving a credit card bill in the subsequent month, the cardholder made a payment of \$300, of which \$135 was used to pay a \$39 over-the-limit fee and \$96 in interest charges on pre-existing credit card debt, leaving \$165 to reduce the overall debt. The resulting balance owed by the consumer after making the \$300 payment was \$5,000. In February 2007, the cardholder made no new purchases. That same month, the interest rate was increased to 15%, and the credit limit was raised to \$5,500. The cardholder received the billing statement in the subsequent month and paid \$300 after the due date. Of that \$300, \$179 was used to pay a \$39 late fee and \$140 in interest charges, leaving \$121 to reduce the principal debt. Subtracting \$121 from \$5,000 leaves a total balance owing of \$4,879. (Note: If purchases had been made during February, the cost would have been added to the new balance total shown for the month.)

Prepared by the U.S. Senate Permanent Subcommittee on Investigations, December 2007

Case History No. 1: Janet Hard
Freeland, Michigan

Janet Hard is a 42 year old registered nurse. She is married, with two children, and her husband works as a steamfitter. She has a credit card with Discover, which she has not used to make purchases in over a year other than to make an \$8 monthly payment for high speed Internet access. She makes regular monthly payments of \$200 to pay off an existing debt on the card of about \$8,500. Ms. Hard has never made a late payment or exceeded her credit limit on the Discover card, and always paid at least the minimum amount due.

In May 2006, Discover increased Ms. Hard's interest rate from about 18% to 24%. Ms. Hard did not realize her interest rate had been increased until later when she saw that her debt was not decreasing and went back to look at her billing statements a second time. After she complained, Discover lowered the interest rate to about 21%.

When she called Discover, Ms. Hard was told that her interest rate had been increased, because her credit card debt was too near her credit limit, she had too many credit cards, and she had delinquencies on credit cards at other companies. Ms. Hard is unable to explain these concerns, since she and her husband have always been careful to meet their credit obligations. When questioned by the Subcommittee, Discover explained that a credit bureau had reduced Ms. Hard's FICO credit score which, in turn, had caused the bank's automated system to impose a higher interest rate on her card. The bank did not know what specific events had triggered the lower credit score, other than the general reasons cited above which were supplied by the credit bureau. Discover also admitted that, despite increasing Ms. Hard's interest rate because she supposedly posed a greater credit risk, it raised her credit limit, in August 2007, from \$10,000 to \$11,000.

Discover applied the increased interest rate to Ms. Hard's existing credit card debt. In February 2006, under the 18% interest rate, out of her \$200 monthly payment, about \$148 went to pay for finance charges and \$52 went to pay down her principal debt. In February 2007, under the 24% interest rate, \$176 went to finance charges and only about \$24, less than half the amount previously, went to pay down the principal debt.

Over the last year, Ms. Hard has charged less than \$100 on her Discover card, incurred interest rates of 21% to 24%, and paid Discover a total of \$2,400. Despite this year of steady payments, her November 2006 debt of about \$8,300 fell by just \$350 and, as of October 2007, she still owed Discover nearly \$8,000.

Janet Hard
Freeland, Michigan

Discover Card

Credit Limit: \$10,000, increased to \$11,000 in 8/07

| Transaction Period | Interest Rate | Purchases | Applicable Payment | Amount Paid Toward: | | Balance after Payment |
|--------------------|---------------|-----------|--------------------|---------------------|------------------------|-----------------------|
| | | | | Interest and Fees* | Reduction in Principal | |
| Feb. '06 | 17.99% | \$273.34 | \$200.00 | \$148.31 | \$51.69 | \$9,428.64 |
| March '06 | 18.24% | \$159.52 | \$225.00 | \$136.91 | \$88.09 | \$9,500.07 |
| April '06 | 23.74% | \$7.95 | \$1,500.00 | \$197.88 | \$1,302.12 | \$8,205.90 |
| May '06 | 23.74% | \$7.95 | \$300.00 | \$188.40 | \$111.60 | \$8,102.25 |
| June '06 | 23.99% | \$15.11 | \$200.00 | \$172.48 | \$27.52 | \$8,089.84 |
| July '06 | 24.24% | \$7.95 | \$200.00 | \$166.11 | \$33.89 | \$8,063.90 |
| Aug. '06 | 24.24% | \$324.96 | \$200.00 | \$178.19 | \$21.81 | \$8,367.05 |
| Sept. '06 | 24.24% | \$7.95 | \$193.00 | \$177.50 | \$15.50 | \$8,359.50 |
| Oct. '06 | 24.24% | \$7.95 | \$200.00 | \$171.81 | \$28.19 | \$8,339.26 |
| Nov. '06 | 24.24% | \$7.95 | \$200.00 | \$177.19 | \$22.81 | \$8,324.40 |
| Dec '06 | 24.24% | \$7.95 | \$200.00 | \$171.23 | \$28.77 | \$8,303.58 |
| | | | | | | |
| Jan. '07 | 24.24% | \$7.95 | \$200.00 | \$176.45 | \$23.55 | \$8,287.98 |
| Feb. '07 | 24.24% | \$7.95 | \$200.00 | \$176.13 | \$23.87 | \$8,272.06 |
| March '07 | 24.24% | \$7.95 | \$200.00 | \$158.70 | \$41.30 | \$8,238.71 |
| April '07 | 24.24% | \$7.95 | \$200.00 | \$175.23 | \$24.77 | \$8,221.89 |
| May '07 | 24.24% | \$7.95 | \$200.00 | \$169.17 | \$30.83 | \$8,199.01 |
| June '07 | 20.99% | \$7.95 | \$200.00 | \$150.95 | \$49.05 | \$8,157.91 |
| July '07 | 20.99% | \$8.91 | \$200.00 | \$145.10 | \$54.90 | \$8,111.92 |
| Aug. '07 | 20.99% | \$7.95 | \$200.00 | \$149.27 | \$50.73 | \$8,069.14 |
| Sept. '07 | 20.99% | \$7.95 | \$200.00 | \$148.50 | \$51.50 | \$8,025.59 |
| Oct. '07 | 20.99% | \$7.95 | \$200.00 | \$142.88 | \$57.12 | \$7,976.42 |

*No late or over-the-limit fees were charged.

Case History No. 2: Millard Glasshof Milwaukee, WI

Millard Glasshof is an 81-year-old retired engineer living on a fixed income. He has had one credit card for many years, administered first by Wachovia, then Bank One, and, since 2005, by Chase after it purchased Bank One. Mr. Glasshof has not used this card to make purchases since 2001, instead making monthly payments to reduce a debt which at its height was about \$6,400.

From 2001-2003, Mr. Glasshof participated in several Bank One payment programs that, after closing his account, allowed him to pay down his debt using a low interest rate. He did not always complete these programs successfully, but continued to reduce his debt. In 2003, after he missed one or more payments, Bank One increased his interest rate to 15%. For the next four years, until recently, Mr. Glasshof made regular payments of \$119 per month to reduce his debt. His bank statements show, for example, that he has not missed a single payment in over two years. Although \$119 is less than the minimum specified on his billing statements, Chase did not charge him a late fee. Chase did, however, charge him multiple over-the-limit fees, since his debt exceeded the card's \$4,500 credit limit. In March 2007, Chase stopped these fees after discontinuing its policy of charging unlimited over-the-limit fees in response to a single overage.

In December 2006, Chase increased his interest rate to 17%. In February 2007, Chase increased it again to 27%. When Mr. Glasshof called Chase to ask why, he told the Subcommittee he was not given a satisfactory explanation, especially since his circumstances were unchanged. When questioned by the Subcommittee, Chase explained that a special automated initiative to "clean up" closed accounts had flagged his account due to a low credit score and caused the December interest rate increase. Chase said the February increase occurred, because Mr. Glasshof "had failed to bring his balance below his credit limit," even though that had been true for more than six years, it was Chase's interest charges and fees that were keeping him above the limit, and he was in excess of the limit by only \$300.

Chase applied the 27% rate to Mr. Glasshof's existing credit card debt. Prior to the increase, out of his monthly \$119 payment, about \$92 went to pay for finance charges and \$27 to pay down the principal debt. After the increase, about \$114 went to finance charges and only \$5 went to pay down the principal debt.

Over the last twelve months, Mr. Glasshof made payments to Chase totaling roughly \$1,300. Despite this year of steady payments, due to high interest rates and fees, his October 2006 debt of about \$4,800 did not decline at all.

In August 2007, Mr. Glasshof received a letter telling him his minimum payment would change. Because the letter was confusing and difficult to read, he called Chase and was advised to change his minimum payment to \$111. After making this payment, Mr. Glasshof was assessed a late fee of \$39 on top of his interest charges, apparently because he should have made a larger payment. In response, he took out a personal loan and completely paid off his Chase credit card. What he did not know is that, the same month he took out the loan, Chase had lowered his credit card interest rate to 6%.

Millard Glasshof
Milwaukee, WI

Chase

Credit Limit: \$4,500

| Transaction Period | Interest Rate | Purchases | Applicable Payment | Amount Paid Toward: | | Balance after Payment |
|--------------------|---------------|-----------|--------------------|---------------------|------------------------|-----------------------|
| | | | | Interest and Fees | Reduction in Principal | |
| Jan. '06 | 14.99% | \$0.00 | \$119.00 | \$96.89* | \$22.11 | \$5,187.73 |
| Feb. '06 | 14.99% | \$0.00 | \$119.00 | \$96.67* | \$22.33 | \$5,165.40 |
| March '06 | 14.99% | \$0.00 | \$119.00 | \$89.96* | \$29.04 | \$5,136.36 |
| April '06 | 14.99% | \$0.00 | \$119.00 | \$96.07* | \$22.93 | \$5,113.43 |
| May '06 | 14.99% | \$0.00 | \$119.00 | \$93.78* | \$25.22 | \$5,088.21 |
| June '06 | 14.99% | \$0.00 | \$119.00 | \$95.35* | \$23.65 | \$5,064.56 |
| July '06 | 14.99% | \$0.00 | \$119.00 | \$63.37 | \$55.63 | \$5,008.93 |
| August '06 | 14.99% | \$0.00 | \$119.00 | \$64.77 | \$54.23 | \$4,954.70 |
| Sept. '06 | 14.99% | \$0.00 | \$119.00 | \$64.41 | \$54.59 | \$4,900.11 |
| Oct. '06 | 14.99% | \$0.00 | \$119.00 | \$61.68 | \$57.32 | \$4,842.79 |
| Nov. '06 | 14.99% | \$0.00 | \$119.00 | \$91.82* | \$27.18 | \$4,815.61 |
| Dec. '06 | 17.24% | \$0.00 | \$119.00 | \$115.76* | \$3.24 | \$4,812.37 |
| | | | | | | |
| Jan. '07 | 17.24% | \$0.00 | \$119.00 | \$118.51* | \$0.49 | \$4,811.88 |
| Feb. '07 | 27.24% | \$0.00 | \$119.00 | \$153.13* | -\$34.13 | \$4,846.01 |
| March '07 | 27.24% | \$0.00 | \$119.00 | \$104.10 | \$14.90 | \$4,831.11 |
| April '07 | 27.24% | \$0.00 | \$119.00 | \$114.57 | \$4.43 | \$4,826.68 |
| May '07 | 27.24% | \$0.00 | \$119.00 | \$110.06 | \$8.94 | \$4,817.74 |
| June '07 | 27.24% | \$0.00 | \$119.00 | \$114.08 | \$4.92 | \$4,812.82 |
| July '07 | 27.24% | \$0.00 | \$119.00 | \$110.38 | \$8.62 | \$4,804.20 |
| August '07 | 27.24% | \$0.00 | \$111.00 | \$113.67 | -\$2.67 | \$4,806.87 |
| Sept. '07 | 26.74% | \$0.00 | \$111.00 | \$151.12** | -\$40.12 | \$4,846.99 |
| Oct. '07 | 6.00% | \$0.00 | Loan taken | | | \$0.00 |

*Includes over-the-limit fee of \$29 or \$39.

**Includes late fee of \$39.

Case History No. 3: Bonnie Rushing

Naples, Florida

Bonnie Rushing has been employed as a corporate paralegal for many years. Her husband is a retired engineer. She has two Bank of America credit cards, one of which is affiliated with the Automobile Association of American (“AAA”). For years, both cards carried an interest rate of about 8%. Ms. Rushing has never made a late payment or exceeded the credit limit on either card, and always paid at least the minimum amount due. In April 2007, Bank of America nearly tripled the interest rate on the AAA card, increasing it from 8% to 23%.

Ms. Rushing first noticed the increase on her April billing statement. She called the bank, which said that she had failed to take advantage of a change-in-term notice mailed earlier that would have allowed her to reject the increase, close her account, and pay the debt at the old rate. Ms. Rushing explained that she never received the notice and noted that when a similar notice had been sent to her in 2004, she had responded in a timely manner and kept her prior rate. Ms. Rushing told the Subcommittee that, in two conversations, bank personnel pressed her to agree to a rate lower than 23% but higher than her 8% rate. When she refused and Bank of America declined to restore her prior rate, Ms. Rushing sent a letter of complaint to the Florida Attorney General who forwarded it to Bank of America’s primary federal regulator. Ms. Rushing also asked AAA to close her account. AAA intervened on her behalf, and Bank of America agreed to apply the prior 8% rate to her closed account. The bank informed its regulator that it had resolved Ms. Rushing’s complaint about its conduct.

Ms. Rushing asked the bank why her interest rate had been increased, and was told that her debt was too high compared to her credit limit, even though her debt level had not substantially changed in months and had been higher in the past when the bank allowed her to cash a \$2,500 credit card check. When questioned by the Subcommittee, Bank of America explained that a credit bureau had reduced Ms. Rushing’s credit score which, in turn, had caused the bank’s automated system to impose a higher interest rate on the card in question, though not the second card which retained its 8% rate. The bank did not know what specific events triggered the lower credit score. Ms. Rushing speculated that her credit score may have been affected when, in January and March 2007, she opened Macy’s and J. Jill credit cards to obtain discounts on purchases of cosmetics and clothes. She has since closed both accounts.

Bank of America applied the 23% interest rate to Ms. Rushing’s existing debt on her AAA card, increasing her finance charges substantially. Under the prior interest rate, her finance charges were in the range of \$150 each month. Under the 23% rate, her finance charges were in the range of \$450, three times greater. When the bank closed her account and restored her prior rate, it also refunded about \$600 in interest charges from just the two months the higher rate had been in effect.

Bonnie Rushing
Naples, Florida

Bank of America (AAA)

Credit Limit: \$ 24,100

| Transaction Period | Interest Rate | Purchases | Applicable Payment | Amount Paid Toward: | | Balance after Payment |
|--------------------|---------------|-----------------------|--------------------|---------------------|------------------------|-----------------------|
| | | | | Interest and Fees | Reduction in Principal | |
| Oct. '06 | 7.90% | \$0.00 | \$400.00 | \$141.54 | \$258.46 | \$21,219.29 |
| Nov. '06 | 7.90% | \$2,500.00* | \$400.00 | \$202.26** | \$197.74 | \$23,521.55 |
| Dec. '06 | 7.90% | \$0.00 | \$390.00 | \$149.83 | \$240.17 | \$23,281.38 |
| Jan. '07 | 7.90% | \$0.00 | \$400.00 | \$163.66 | \$236.34 | \$23,045.04 |
| Feb. '07 | 7.90% | \$550.00 (medical) | \$400.00 | \$155.42 | \$244.58 | \$23,350.46 |
| March '07 | 7.90% | \$0.00 | \$395.00 | \$153.83 | \$241.17 | \$23,109.29 |
| April '07 | 22.90% | \$0.00 | \$680.00 | \$443.71 | \$236.29 | \$22,873.00 |
| May '07 | 22.90% | \$0.00 | \$700.00 | \$459.00 | \$851.68*** | \$22,021.32 |
| June '07 | 7.99% | \$0.00 | \$400.00 | \$156.39 | \$243.61 | \$21,777.71 |
| July '07 | 7.99% | \$0.00 | \$400.00 | \$145.23 | \$254.77 | \$21,522.94 |
| August '07 | 7.99% | \$0.00 | \$400.00 | \$148.20 | \$251.80 | \$21,271.14 |

* Used credit card check to obtain this amount from Bank of America.

**Includes \$50 fee for using the credit card check.

No late or over-the-limit fees were charged.

***Includes \$610.68 refunded by bank for past interest charges under 23% rate.

Case History No. 4: Gayle Corbett
Seattle, Washington

Gayle Corbett works full time at the Seattle courthouse. She has multiple credit cards, keeps careful track of the amounts she owes, and pays her bills on time, providing more than the minimum due each month. In 2007, despite her regular payments, the interest rates were increased on her credit cards with Bank of America, Citi Card, and Capital One.

Bank of America increased her interest rate in August 2007, from 15% to 24%, because a credit bureau had lowered her credit score. After the Subcommittee inquired about the account, the bank reduced her rate to 10%, and she agreed to suspend new purchases until she reduced her debt on the card. In January 2007, Citi Card more than doubled her interest rate, from 11% to 23%. This increase was also due to a lower credit score. Citi announced the next month, in March 2007, that it would no longer increase cardholder interest rates due to lower credit scores unrelated to Citi Card activity, but still declined to restore Ms. Corbett's prior rate. In September, in response to Ms. Corbett's request and an improved credit score, Citi reduced her rate to 19%, still 8% above her original rate. At the same time, Citi increased her credit limit by nearly \$2,500.

In September 2007, Capital One increased Ms. Corbett's interest rate from 15% to 19%. Capital One's increase was not due to a lower credit score, but because the bank had decided to pass on its borrowing costs to its cardholders. Ms. Corbett's account was selected by Capital One's automated system, because it had not had an interest rate increase in three years and carried what the bank characterized as a "below market" interest rate. After she complained, Capital One agreed to close her account, restore her prior 15% rate, and credit her account with the excess finance charges imposed earlier.

In twelve months, Ms. Corbett was subjected to interest rate increases on three credit cards, even though she was meeting her credit card obligations. As she contested each increase, her cards were assigned a wide range of interest rates, from 10% to 23%. Her interest rates have settled for the moment at 10%, 19% and 15%, but are subject to further increases by the credit card issuers.

Each of the higher interest rates was applied to Ms. Corbett's credit card debt, increasing her finance charges. In December 2006, for example, prior to the increases, she made monthly payments on all three cards totaling \$530, of which \$193 went to pay for finance charges. By August 2007, out of monthly payments totaling \$580, about \$350 went to pay for finance charges, substantially more than previously.

Ms. Corbett told the Subcommittee, "I owe this money. I'm willing to pay my debts – just don't make it harder for me." She said that contesting the three interest rate increases in 2007, none of which were her fault and all of which threatened her ability to repay her debts, had left her exhausted and worried about what would happen next.

Gayle Corbett
Seattle, Washington

Bank of America

Credit Limit: \$9,000

| Transaction Period | Interest Rate | Purchases | Applicable Payment | Amount Paid Toward: | | Balance after Payment |
|--------------------|---------------|-----------|--------------------|---------------------|------------------------|-----------------------|
| | | | | Interest and Fees* | Reduction in Principal | |
| Oct. '06 | 15.24% | \$23.99 | \$206.00 | \$122.25 | \$83.75 | \$8,368.13 |
| Nov. '06 | 15.24% | \$0.00 | \$190.00 | \$102.52 | \$87.48 | \$8,280.65 |
| Dec. '06 | 15.24% | \$0.00 | \$185.00 | \$98.95 | \$86.05 | \$8,194.60 |
| Jan. '07 | 15.24% | \$326.54 | \$205.00 | \$120.25 | \$84.75 | \$8,436.39 |
| Feb. '07 | 15.24% | \$26.75 | \$186.00 | \$100.90 | \$85.10 | \$8,378.04 |
| March '07 | 15.24% | \$157.15 | \$200.00 | \$114.87 | \$85.13 | \$8,450.06 |
| April '07 | 15.24% | \$26.75 | \$190.00 | \$104.62 | \$85.38 | \$8,391.43 |
| May '07 | 15.24% | \$54.96 | \$195.00 | \$107.62 | \$87.38 | \$8,359.01 |
| June '07 | 15.24% | \$200.31 | \$201.00 | \$115.77 | \$85.23 | \$8,474.09 |
| July '07 | 15.24% | \$26.77 | \$193.00 | \$108.93 | \$84.07 | \$8,416.79 |
| August '07 | 23.99% | \$200.32 | \$270.00 | \$177.39 | \$92.61 | \$8,524.50 |
| Sept. '07 | 9.99% | \$0.00 | \$160.00 | \$71.61 | \$88.39 | \$8,436.11 |

AT&T

Universal/Citi

Credit Limit: \$7,100 increased to \$9,590 in Sept. 2007

| Transaction Period | Interest Rate | Purchases | Applicable Payment | Amount Paid Toward: | | Balance after Payment |
|--------------------|---------------|-----------|--------------------|---------------------|------------------------|-----------------------|
| | | | | Interest and Fees* | Reduction in Principal | |
| Oct. '06 | 10.81% | \$174.30 | \$130.00 | \$58.69 | \$71.31 | \$6,746.80 |
| Nov. '06 | 10.81% | \$64.99 | \$140.00 | \$65.60 | \$74.40 | \$6,737.39 |
| Dec. '06 | 10.84% | \$74.87 | \$260.00 | \$61.10 | \$198.90 | \$6,613.36 |
| Jan. '07 | 23.31% | \$174.54 | \$201.28 | \$132.28 | \$69.00 | \$6,718.90 |
| Feb. '07 | 23.31% | \$134.31 | \$208.00 | \$138.42 | \$69.58 | \$6,783.63 |
| March '07 | 23.31% | \$0.00 | \$200.00 | \$129.05 | \$70.95 | \$6,712.68 |
| April '07 | 23.31% | \$0.00 | \$201.00 | \$132.26 | \$68.74 | \$6,643.94 |
| May '07 | 23.31% | \$0.00 | \$212.00 | \$144.19 | \$67.81 | \$6,576.13 |
| June '07 | 23.31% | \$0.00 | \$190.00 | \$120.80 | \$69.20 | \$6,506.93 |
| July '07 | 23.31% | \$0.00 | \$200.00 | \$132.39 | \$67.61 | \$6,439.32 |
| August '07 | 23.52% | \$0.00 | \$220.00 | \$136.60 | \$83.40 | \$6,355.92 |
| Sept. '07 | 19.10% | \$0.00 | \$165.00 | \$99.03 | \$65.97 | \$6,289.95 |
| Oct. '07 | 18.52% | \$0.00 | ** | \$98.06 | ** | ** |

*No late or over-the-limit fees were charged.

** The November billing statement was not available at the time of this analysis.

Gayle Corbett
Seattle, Washington

Capital One

Credit Limit: \$3,000

| Transaction Period | Interest Rate | Purchases** | Applicable Payment | Amount Paid Toward: | | Balance after Payment |
|--------------------|---------------|-------------|--------------------|---------------------|------------------------|-----------------------|
| | | | | Interest and Fees* | Reduction in Principal | |
| Oct. '06 | 14.90% | \$37.63 | \$85.00 | \$35.41 | \$49.59 | \$2,779.09 |
| Nov. '06 | 14.90% | \$5.00 | \$90.00 | \$37.41 | \$52.59 | \$2,731.50 |
| Dec. '06 | 14.90% | \$5.00 | \$85.00 | \$33.41 | \$51.59 | \$2,684.91 |
| Jan. '07 | 14.90% | \$5.00 | \$81.00 | \$35.09 | \$45.91 | \$2,644.00 |
| Feb. '07 | 14.90% | \$104.03 | \$85.00 | \$35.49 | \$49.51 | \$2,698.52 |
| March '07 | 14.90% | \$134.11 | \$90.00 | \$32.88 | \$57.12 | \$2,775.51 |
| April '07 | 14.90% | \$5.00 | \$90.00 | \$36.34 | \$53.66 | \$2,726.85 |
| May '07 | 14.90% | \$5.00 | \$85.00 | \$34.48 | \$50.52 | \$2,681.33 |
| June '07 | 14.90% | \$101.74 | \$90.00 | \$44.62 | \$45.38 | \$2,737.69 |
| July '07 | 14.90% | \$84.68 | \$85.00 | \$36.09 | \$48.91 | \$2,773.46 |
| August '07 | 14.90% | \$5.00 | \$90.00 | \$35.98 | \$54.02 | \$2,724.44 |
| Sept. '07 | 19.40% | \$34.18 | \$85.00 | \$44.81 | \$40.19 | \$2,718.43 |
| Oct. '07 | 14.90% | \$0.00 | *** | \$36.37 | *** | *** |

*No late or over-the-limit fees were charged.

**Includes monthly \$5 payment toward \$60 Capital One annual credit card fee.

***Capital One will refund past interest charges on the November billing statement. This statement was not available at the time of this analysis.

Case History No. 5: Agnes Holmes
Montgomery, Alabama

Agnes Holmes considers herself a loyal Chase customer; she has two Chase credit cards, one with MasterCard and the other with Visa. Ms. Holmes takes care to stay below the credit limit, always pays the requested amount due, and takes pride in paying her credit card bills on the same day she receives them. Despite her history of on-time payments, in May 2007, Chase increased the interest rate on her Visa card from 19% to 30%.

Ms. Holmes called Chase and asked for her prior rate to be restored but was told that the 30% rate could not be reduced. When questioned by the Subcommittee, Chase explained that Ms. Holmes' credit score had been lowered by a credit bureau which, in turn, had caused the bank's automated system to impose a higher interest rate on her card. The bank did not know what specific events triggered the lower score, other than the general reason provided by the credit bureau that the cardholder had engaged in excessive utilization of her available credit, even though none of her accounts exceeded her credit limits. Ms. Holmes told the Subcommittee that she had not been informed that her credit score was a factor in raising her interest rate, and she had paid all her bills on time for years. In addition, because Ms. Holmes employs a service that tracks her credit reports to prevent identity theft and indicates her credit score each quarter, she provided materials showing that, for the quarters before, during and after the month her interest rate was increased, her credit score had not fallen but remained at or above 700.

Chase applied the 30% interest rate to Ms. Holmes' existing credit card debt, increasing her monthly finance charges. Under the 19% rate, in March 2007, out of a monthly payment of \$125, about \$75 went to pay for finance charges. After the increase, under the 29% rate, out of a payment of \$165 in May 2007, about \$118 went to finance charges.

In September, Ms. Holmes informed Chase that she had contacted the Subcommittee about her account. In October, the bank informed her that it would lower the interest rate on her credit card to a 13% fixed rate and credit her account with the full amount of the finance charges imposed earlier.

Agnes Holmes
Montgomery, Alabama

Chase

Credit Limit: \$5,000

| Transaction Period | Interest Rate | Purchases | Applicable Payment | Amount Paid Toward: | | Balance after Payment |
|--------------------|---------------|------------|--------------------|---------------------|------------------------|-----------------------|
| | | | | Interest and Fees* | Reduction in Principal | |
| Sept. '06 | 18.99% | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Oct. '06 | 18.99% | \$2,946.47 | \$100.00 | \$0.00 | \$100.00 | \$2,846.47 |
| Nov '06 | 18.99% | \$1,253.95 | \$125.00 | \$79.86 | \$45.14 | \$4,055.28 |
| Dec '06 | 18.99% | \$715.64 | \$125.00 | \$76.77 | \$48.23 | \$4,722.69 |
| Jan '07 | 18.99% | \$0.00 | \$125.00 | \$77.37 | \$47.63 | \$4,675.06 |
| Feb '07 | 18.99% | \$0.00 | \$125.00 | \$69.19 | \$55.81 | \$4,619.25 |
| March '07 | 18.99% | \$0.00 | \$125.00 | \$75.75 | \$49.25 | \$4,570.00 |
| April '07 | 18.99% | \$0.00 | \$120.00 | \$72.47 | \$47.53 | \$4,522.47 |
| May '07 | 29.99% | \$0.00 | \$165.00 | \$117.74 | \$47.26 | \$4,475.21 |
| June '07 | 29.99% | \$0.00 | \$160.00 | \$112.75 | \$47.25 | \$4,427.96 |
| July '07 | 29.99% | \$0.00 | \$160.00 | \$115.54 | \$44.46 | \$4,383.50 |
| August '07 | 29.99% | \$0.00 | \$160.00 | \$114.38 | \$45.62 | \$4,337.88 |
| Sept. '07 | 29.99% | \$0.00 | \$155.00 | \$109.55 | \$45.45 | \$4,292.43 |
| Oct. '07 | 12.99%** | \$0.00 | *** | \$45.83 | *** | *** |

* No late or over-the-limit fees were charged.

** Statement lists the 12.99% as a “promotional” rate and 29.99% as interest rate applicable to purchases.

*** Chase will refund past interest charges on the November billing statement. This statement was not available at the time of this analysis.

Case History No. 6: Linda Fox
Circleville, Ohio

Linda Fox is a working grandmother who has been employed by the same large company for 25 years. She has had a Capital One credit card for over ten years, has never made a late payment or exceeded her credit limit, and always paid at least the minimum amount due. In April 2007, Capital One increased her interest rate from 8% to 13%.

Ms. Fox first noticed the increase when she saw her May billing statement. She called the bank, which said she had failed to take advantage of a change-in-term notice mailed earlier that would have allowed her to reject the increase, close her account, and pay her debt at the old rate. Ms. Fox explained that she had never received the notice. Capital One declined to reduce the rate and told her that her account could be placed in a “closing status” but would still be subject to the new 13% interest rate.

When questioned by the Subcommittee, Capital One explained that it had increased Ms. Fox’s interest rate, not because she was at fault, but because the bank had decided to pass on its borrowing costs to its cardholders. Capital One’s automated system had selected Ms. Fox’s account, because it had not had an interest rate increase in three years and had what the bank characterized as a “below market” interest rate. She was one of many Capital One accounts selected for an interest rate increase.

Capital One applied the increased interest rate to Ms. Fox’s existing credit card debt. In January 2007, before the increase, out of her \$600 payment, about \$130 went to pay for finance charges. In June 2007, after the increase, out of her \$600 payment, about \$247 went to pay for finance charges, almost double the previous amount.

In November 2007, after Ms. Fox complained, Capital One agreed to allow her, beginning in her December billing statement, to close her account and repay her debt at the prior rate of 8%. Capital One also credited her account with the excess finance charges imposed earlier.

Linda Fox
 Circleville, Ohio

Capital One

Credit Limit: \$20,000

| Transaction Period | Interest Rate | Purchases | Applicable Payment | Amount Paid Toward: | | Balance after Payment |
|--------------------|---------------|------------|--------------------|---------------------|------------------------|-----------------------|
| | | | | Interest and Fees* | Reduction in Principal | |
| Oct. '06 | 7.90% | \$163.08 | \$600.00 | \$123.38 | \$476.62 | \$17,846.54 |
| Nov. '06 | 7.90% | \$381.23 | \$852.06 | \$125.53 | \$726.53 | \$17,501.24 |
| Dec. '06 | 7.90% | \$1,131.57 | \$859.96 | \$122.68 | \$737.28 | \$17,895.53 |
| Jan. '07 | 7.90% | \$879.81 | \$600.00 | \$129.87 | \$470.13 | \$18,305.21 |
| Feb. '07 | 7.90% | \$612.24 | \$1,021.24 | \$129.52 | \$891.72 | \$18,025.73 |
| March '07 | 7.90% | \$965.91 | \$825.50 | \$117.77 | \$707.73 | \$18,283.91 |
| April '07 | 12.90% | \$837.11 | \$837.17 | \$214.60 | \$622.57 | \$18,498.45 |
| May '07 | 12.90% | \$377.19 | \$800.00 | \$207.09 | \$592.91 | \$18,282.73 |
| June '07 | 12.90% | \$0.00 | \$600.00 | \$246.86 | \$353.14 | \$17,929.59 |
| July '07 | 12.90% | \$0.00 | \$2,000.00 | \$201.53 | \$1,798.47 | \$16,131.12 |
| August '07 | 12.90% | \$0.00 | \$600.00 | \$186.14 | \$413.86 | \$15,717.26 |
| Sept. '07 | 12.90% | \$0.00 | \$500.00 | \$176.95 | \$323.05 | \$15,394.21 |
| Oct. '07 | 12.90% | \$0.00 | \$500.00 | \$167.25 | \$744.70** | \$14,649.51 |
| Nov. '07 | 7.90% | \$0.00 | *** | \$104.94 | *** | *** |

*No late or over-the-limit fees were charged.

**Includes \$411.95 refunded by bank for past interest charges under 12.90% rate.

***Ms. Fox will pay her bill in December. The December billing statement was not available at the time of this analysis.

Case History No. 7: Marjorie Hancock
Arlington, Massachusetts

Marjorie Hancock is a retired financial director from an engineering firm and the mother of three grown children. She has four credit cards with Bank of America, one which she stopped using in May in order to pay down the debt; a second card she stopped using years ago and on which she has made steady payments to reduce the debt; a third which she uses occasionally; and a fourth which her son, a student enrolled in graduate school, uses for his school expenses as an authorized signer. In August, Bank of America increased the interest rate on the first credit card from 19% to 27%.

Ms. Hancock has never made a late payment or exceeded the limit on the card, and always paid more than the minimum amount due. She owed about \$8,200 on that card, well below its credit limit of \$15,000. She owed sums on the other three cards as well, but all were below their credit limit and all were being paid off in compliance with the terms of each card.

When Ms. Hancock called Bank of America to ask why her interest rate had increased, she was told that her credit card “utilization” was too high, even though her balances had not substantially changed in over a year. She was also told that she had “serious delinquencies” on cards with other companies, even though she is current on all her credit card obligations. When questioned by the Subcommittee, Bank of America explained that Ms. Hancock’s credit score had been reduced by a credit bureau which, in turn, had caused the bank’s automated system to impose a higher interest rate on the card in question. The bank did not know what specific events had triggered the lower score, other than the general reasons provided by the credit bureau and given to Ms. Hancock.

Ms. Hancock’s four Bank of America credit cards now carry interest rates of 8%, 14%, 19%, and 27%, even though she poses the same credit risk on all four. Bank of America has declined to restore her prior rate on the credit card bearing the highest rate. At the same time, Bank of America regularly sends Ms. Hancock credit card checks which would allow her to incur additional debt.

Bank of America applied the 27% interest rate to Ms. Hancock’s existing debt on her credit card, which substantially increased her finance charges. In July 2007, for example, when her interest rate was 19%, out of a \$230 payment on the card, about \$128 went to pay for finance charges. In August, after the increase to 27%, out of a payment of \$300, about \$200 went to finance charges, an increase of more than 50%.

Ms. Hancock noted that, in a telephone call, Bank of America personnel claimed the bank was “helping” her by increasing her interest rate. She wrote to the bank that it would help her more if the bank had lowered rather than increased her interest rate.

Marjorie Hancock
Arlington, Massachusetts

Bank of America

Credit Limit: \$15,000

| Transaction Period | Interest Rate | Purchases | Applicable Payment | Amount Paid Toward: | | Balance after Payment |
|--------------------|---------------|-----------|--------------------|---------------------|------------------------|-----------------------|
| | | | | Interest and Fees* | Reduction in Principal | |
| Nov. '06 | 18.24% | \$140.10 | \$231.00 | \$132.13 | \$98.87 | \$8,857.17 |
| Dec. '06 | 18.24% | \$336.83 | \$250.00 | \$143.84 | \$106.16 | \$9,087.84 |
| Jan. '07 | 18.24% | \$176.38 | \$250.00 | \$147.11 | \$102.89 | \$9,161.33 |
| Feb. '07 | 18.24% | \$0.00 | \$300.00 | \$131.08 | \$168.92 | \$8,992.41 |
| March '07 | 18.24% | \$0.00 | \$270.00 | \$147.95 | \$122.05 | \$8,870.36 |
| April '07 | 18.24% | \$4.95 | \$235.00 | \$132.07 | \$102.93 | \$8,772.38 |
| May '07 | 18.24% | \$0.00 | \$500.00 | \$134.84 | \$365.16 | \$8,407.22 |
| June '07 | 18.24% | \$0.00 | \$225.00 | \$140.29 | \$84.71 | \$8,322.51 |
| July '07 | 18.24% | \$0.00 | \$230.00 | \$128.06 | \$101.94 | \$8,220.57 |
| August '07 | 26.99% | \$0.00 | \$300.00 | \$200.22 | \$99.78 | \$8,120.79 |
| Sept. '07 | 26.99% | \$0.00 | \$1,000.00 | \$181.12 | \$818.88 | \$7,301.91 |
| Oct. '07 | 26.99% | \$0.00 | ** | \$173.03 | ** | ** |

*No late or over-the-limit fees were charged.

**The November billing statement was not available at the time of this analysis.

Case History No. 8: Donna Bernard
Dallas, Texas

Donna Bernard is an administrative assistant at a large corporation. She has multiple credit cards with substantial balances, keeps careful track of the amounts she owes, and pays her bills on time. She has not used one of her credit cards, from Chase, to make purchases since 2001, instead making steady monthly payments to reduce a debt of about \$7,900. She has never made a late payment or exceeded her credit limit on the card, and always paid at least the minimum amount due. In December 2006, Chase nearly doubled her interest rate on the card, from about 15% to 29%.

When Ms. Bernard contacted Chase to find out why, she was told that the increase was because her “total bankcard balances have grown too fast,” she had too many credit cards with high balances, and her credit card balances “are too high compared to total credit limits.” Chase had apparently determined that these factors outweighed her history of making regular, on-time payments for years to reduce her Chase debt. When questioned by the Subcommittee, Chase explained further that a special automated initiative at the bank to “clean up” closed credit card accounts had flagged Ms. Bernard’s account due to a low credit score provided by a credit bureau and imposed the December rate increase. Chase did not know what specific events triggered the lower score, other than the general reasons provided by the credit bureau which were given to Ms. Bernard.

Ms. Bernard was also told that she had missed the deadline to reject the increase, close her account, and pay the debt at the old rate. In discussing the matter, Ms. Bernard learned from bank personnel that the bank had closed her account to new purchases years earlier. Despite having closed her account in 2001, Chase declined to restore her prior interest rate, informing Ms. Bernard that closed accounts are not protected from interest rate increases.

Chase applied the 29% interest rate to the existing debt in her closed account, substantially increasing her monthly finance charges. In October 2006, for example, under the 15% rate, out of a \$165 payment, about \$100 went to pay for finance charges and \$65 to pay down the principal debt. In January 2007, after the increase, out of a larger payment of \$200, \$199.75 went to pay finance charges, and just 25 cents went to pay down the principal debt.

Chase applied the new interest rate to Ms. Bernard’s account for seven months. After she contacted the Subcommittee, Chase restored her 15% interest rate and credited her account with nearly \$600 in interest charges imposed earlier. Chase set up the 15% as a “promotional rate” that would be replaced with a 29% rate if Ms. Bernard were to be late making a single payment.

Over the last twelve months, Ms. Bernard made payments on her Chase credit card totaling about \$2,300. Despite this year of steady payments, her October 2006 debt of about \$7,900 fell by only about \$900 to just under \$7,000.

Donna Bernard
Dallas, Texas

Chase

Credit Limit: \$12,150

| Transaction Period | Interest Rate | Purchases | Applicable Payment | Amount Paid Toward: | | Balance after Payment |
|--------------------|---------------|-----------|--------------------|---------------------|------------------------|-----------------------|
| | | | | Interest and Fees* | Reduction in Principal | |
| Oct. '06 | 14.99% | \$0.00 | \$165.00 | \$100.03 | \$64.97 | \$7,896.58 |
| Nov. '06 | 14.99% | \$0.00 | \$159.00 | \$102.39 | \$56.61 | \$7,839.97 |
| Dec. '06 | 29.24% | \$0.00 | \$194.00 | \$193.73 | \$0.27 | \$7,839.70 |
| Jan. '07 | 29.24% | \$0.00 | \$200.00 | \$199.75 | \$0.25 | \$7,839.45 |
| Feb. '07 | 29.24% | \$0.00 | \$200.00 | \$199.34 | \$0.66 | \$7,838.79 |
| March '07 | 29.24% | \$0.00 | \$180.00 | \$179.55 | \$0.45 | \$7,838.34 |
| April '07 | 29.24% | \$0.00 | \$199.00 | \$198.79 | \$0.21 | \$7,838.13 |
| May '07 | 29.24% | \$0.00 | \$193.00 | \$192.54 | \$0.46 | \$7,837.67 |
| June '07 | 29.24% | \$0.00 | \$201.00 | \$200.31 | \$0.69 | \$7,836.98 |
| July '07 | 14.99%** | \$0.00 | \$146.00 | \$87.27*** | \$650.37**** | \$7,186.61 |
| August '07 | 14.99%** | \$0.00 | \$166.00 | \$93.24*** | \$72.76 | \$7,113.85 |
| Sept. '07 | 14.99%** | \$0.00 | \$164.00 | \$92.33*** | \$71.67 | \$7,042.18 |
| Oct. '07 | 14.99%** | \$0.00 | \$159.00 | \$88.33*** | \$70.67 | \$6,971.51 |

*No late or over-the-limit fees were charged.

**Statement lists the 14.99% as a “promotional” rate and 29.24% as the interest rate applicable to purchases.

***For July, figure includes \$1.97 at 29.24% rate and \$85.30 at 14.99% rate; for August through October, figures include \$0.05 at 29.24% rate and remainder at 14.99%.

****Includes \$591.64 refunded by bank for past interest charges under 29.24% rate.

Summary of Janet Hard Account

(November 2006 to October 2007)

| | |
|---|--------------|
| Owed as of October 2006: | \$8,330 |
| Total interest charges: | \$1,900 |
| Total purchases: | <u>\$100</u> |
| | \$10,330 |
| | |
| Total payments: | \$2,400 |
| Owed as of October 2007: | \$7,980 |
| Total reduction in debt after one year: | \$350 |

Source: Discover credit card statements. Figures have been rounded.

Prepared by U.S. Senate Permanent Subcommittee on Investigations, December 2007

Summary of Millard Glasshof Account

(November 2006 to October 2007)

| | |
|---|------------|
| Owed as of October 2006: | \$4,800 |
| Total interest charges: | \$1,100 |
| Total fees: | \$200 |
| Total purchases: | <u>\$0</u> |
| | \$6,100 |
| | |
| Total payments: | \$1,300 |
| Owed as of October 2007: | \$4,800 |
| Total reduction in debt after one year: | \$0 |

Source: Chase credit card statements. Figures have been rounded.

Prepared by U.S. Senate Permanent Subcommittee on Investigations, December 2007

Automated Repricing of Credit Card Interest Rates

