

# Consumer Action

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## CREDIT CARDHOLDERS UNDER ATTACK

### *Cost of credit rises as lenders make retaliatory strikes for new credit law*

Aug. 13, 2009 — Many credit cardholders find their interest rates rising, minimum payments spiking and credit limits plummeting, says Consumer Action, which today releases its 2009 Credit Card Survey.

The results of the new Credit Card Survey confirm widespread cardholder complaints that even excellent customers who carry a balance are subject to costly, unilateral increases in their credit card bills.

Consumers are seeing increases in purchase rates, cash advance rates and in some cases default rates. Some issuers are using the new credit card law coming next February as an excuse to hike rates and boost fees. Many of these increases were enacted this spring, after President Obama signed the Credit CARD Act.

“We are seeing lenders make good on threats to raise the cost of credit, if a new credit card law passed,” said Ruth Susswein of Consumer Action, coordinator of the new survey.

Consumer Action’s 2009 Credit Card Survey shows that fixed rates are vanishing, while grace periods are shrinking a little more each year. For one surveyed card, the grace period was cut to six days.

The organization used this year’s survey to screen for practices that will be banned (or limited) in 2010 when the Credit CARD Act takes full effect. We found that nearly all surveyed issuers have at least one practice that will be prohibited or limited by the new law, including anytime any reason changes in terms, payment allocation, early payment cut-off times on the due date, penalty rates and penalty fees, and universal default.

Consumer Action’s annual credit card survey shows that, on the eve of credit card reform, cardholders can’t be sure that they are getting accurate information from many card companies. Surveyors found that some credit card information found online this year is dated as far back as 2007. One major issuer has eliminated phone applications and some of the customer service that goes with it. Many issuers continue to be unable or unwilling to provide detailed information about their card offers to consumers.

### *Recent rate hikes*

We found that some card issuers boosted interest rates on purchases and cash advances by up to three percentage points between March and June. As Consumer Action double-checked the information it had collected, staffers found evidence that Bank of America, Capital One, Citibank, US Bank and Wells Fargo had raised these rates on several surveyed cards since surveying closed on March 20.

## **Purchase APR and Cash Advance APR Increases this Spring**

<b>Bank/Card</b>	<b>Increase in Purchase APR</b>	<b>Increase in Cash Advance APR</b>
Bank of America Platinum Plus Visa	Up to 46%	Up to 21%
Bank of America Platinum Plus Cash Rewards	Up to 33%	
Bank of America Accelerated Rewards American Express	Up to 33%	
Capital One No Hassle Miles		Up to 8.6%
Capital One Standard Platinum		Up to 8.6%
Citi (all three surveyed cards)	Up to 26% - 42%	
US Bank Visa Platinum	Up to 25%	Up to 9.5%
US Bank Travel Rewards Visa Platinum	Up to 25%	Up to 9.5%
Wells Fargo Cash Back	Up to 4.6%	Up to 8.5%
Wells Fargo Platinum	Up to 13%	Up to 8.5%

### ***Penalty rates up***

Between March and June<sup>1</sup>, surveyors found that:

- Capital One increased its penalty (default) rate by 6.25%, bringing the interest rate to 29.4% on its Standard Platinum and No Hassle Miles cards.
- US Bank raised its penalty rate by one point, to 28.99%.
- Chase's penalty rate on its Perfect Mastercard is up almost three points to 29.99%.

### ***Prime Rate falls, but not APRs***

Consumer Action finds that cardholders are not receiving the full benefit of the drop in Prime Rates.

The average variable interest rate on surveyed cards is 13.20%, about one percentage point lower than last year (14.25% in '08) while the Prime Rate has fallen two full percentage points.

“Credit card companies are expecting their customers to foot the bill for their losses, through steep increases in rates and fees. When the Prime Rate falls, it is unfair not to pass along the savings to variable rate cardholders. It's a game of heads I win, tails you lose,” said Susswein.

Variable rates on surveyed cards ranged from 4.25% (First Command Platinum Visa) to 22.99% (US Bank's highest rate for its Flexperks Select Rewards Visa).

### ***Fixed to variable***

More than half (54%) of the surveyed cards with a fixed interest rate in '08 now carry a variable rate. This year, only five surveyed cards had a fixed interest rate. (Golden1,

<sup>1</sup> Since the close of our survey, rates and fees continue to change rapidly. While we can provide some examples of continued changes, we recommend that consumers and reporters visit issuers' websites for the most current data.

Navy FCU, Pentagon Federal, Pulaski<sup>2</sup>, and Simmons First). Thirteen cards had a fixed rate in the 2008 survey.

### ***Fees are upward bound***

*Late fees* are up 9% on average in '09. While the top late fee remains at \$39, the average fee has crept from \$25.90 to \$28.19.

*Balance transfer* fees are higher—some were hiked during the survey and the rest afterwards—to as high as 5%. Bank of America's balance transfer fees jumped from 3% to 4% on its Platinum Plus Cash Rewards Mastercard and Platinum Plus Visa. Discover's More also raised balance transfer fees to 4%. The Pentagon Federal fee went from 1% last year to 2.5% in '09. Chase is increasing its balance transfer fee to a high of 5% this month.

Twenty-four cards in this year's survey charged a 3% balance transfer fee, compared to 11 cards last year. In 2009, 11 cards charge *no* fee to transfer a balance (up from five cards last year).

For those with excellent credit, this year's survey reveals a few bargains—cards from issuers that offer a balance transfer with no fee *and* a low interest rate. These cards are from First Command Bank, Navy Federal Credit Union and Simmons First.

*Cash advance* fees also rose to 5% in this year's survey. Bank of America's fee jumped from 3% to 5% this spring (4% on certain kinds of advances). Iberia Bank (which now includes Pulaski Bank) also charges a 5% cash advance fee, with a \$100 cap. The fee on US Bank's Flexperks card increased from 3% to 4% between March and June.

More issuers are charging higher *minimum fees* this year and typically no maximum. This year, balance transfer and cash advance minimums range from \$2 to \$15. About 40% of surveyed cards have a \$10 minimum cash advance fee, while only one third of cards carried a \$10 minimum in '08.

Simultaneously, 70% of the cards surveyed had no maximum cash advance fee—which means there is no limit to the fee.

Consumers who use their credit cards in another country may find a *foreign transaction* fee of up to 3% tacked onto their bill. Foreign transaction (or currency conversion) fees were charged by all but two issuers (Capital One and First Command).

Some issuers impose the foreign transaction fee even if you never leave the comfort of your home. Customers who shop online may find the fee attached to their next order. Representatives from 12 surveyed cards said they charge this fee if items are purchased online or by phone from a business in a foreign country.

While there have been many dire predictions that annual fees will make a comeback, we found only eight surveyed cards with an annual fee (from \$19 at Navy FCU to \$150 on the AmEx Skymiles card), up from six last year. One issuer, HSBC, charges a range of annual fees (up to \$79) *and* a one time account processing fee of up to \$49, to some of its unfortunate customers.

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<sup>2</sup> After the survey closed, Pulaski changed its offer to a variable rate card, leaving only four cards in Consumer Action's survey with fixed rates.

## **Outdated Information**

Consumers cannot be sure whether they can rely on the credit card terms available online. This year's survey found that some of the terms and conditions may be outdated by as much as two years.

The new credit card law (taking effect in February) will require lenders to post their information online, but the law does not specify that the information must be up to date.

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*Consumer Action, founded in 1971, is a national nonprofit consumer education and advocacy organization, headquartered in San Francisco with offices in Los Angeles and Washington, DC.*