

CONSUMER ACTION NEWS

www.consumer-action.org • Fall 2011

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Secured Credit Card Survey

Secured credit cards can help build good credit

By Alegra Howard and Ruth Susswein

It's not easy to build a credit record or to rebuild a damaged credit history. One of the few ways to do it legitimately is with a secured credit card. Consumer Action's new Secured Credit Card Survey found many secured card options that could be used to build a solid credit record.

Many people were deeply affected by the financial crisis, and scores of them are still working to put their personal finances in order. Those who lost jobs often fell behind on their bills, and because of this, many people lost their homes to foreclosure. As if that weren't bad enough, financial troubles often result in damaged credit and lower credit scores, leading to the loss of the financial safety net provided by access to reasonably priced credit.

Secured credit cards are bank credit cards backed by money that you deposit and keep in a bank savings account—as little as \$200 for an equal credit line. A

“fully secured” card is one with a credit limit that equals the dollar amount in your security deposit. One surveyed bank, Capital One, requires a partial deposit of as little as \$49 to secure a \$200 line of credit, depending on the applicant's credit.

The deposit account serves as security for the card. If you default (don't pay your credit card bill for several months) the issuer has the right to cover your debts with the money in the deposit account. You cannot use or withdraw any funds from the security deposit while the secured credit card account is open. (Charges you make with the secured card appear on your statement but are not debited directly from the security account.)

Consumer Action reviewed 13 secured credit card offers from 12 issuers and found a wide range of interest rates on surveyed cards. Four of the surveyed cards had interest rates on purchases below 10% APR, and one charged no

Secured Credit Card Survey at a glance

Cards surveyed: 13

Range of interest rates: 0% (Applied Bank Platinum Visa) to 23.99% (Fifth Third Bank Secured MasterCard)

Range of annual fees:

No annual fee (with interest-free grace period: Golden 1 Credit Union and Navy Federal Credit Union; with no grace period: Applied Bank Gold Visa) to \$119 (Applied Bank Platinum Visa)

Minimum deposits:

\$200 (Applied Bank, Citi Secured MasterCard and Capital One Secured MasterCard¹) to \$500 (Applied Bank Platinum Visa and Navy Federal Credit Union)

Interest paid on deposits:

U.S. Bank (.50%), USAA Secured MasterCard (.92%) and Golden 1 Credit Union, CitiBank MasterCard and HSBC Orchard Bank (1%)

¹ For applicants with an eligible credit history, Capital One's Secured MasterCard security deposit may be as low as \$49 to secure an initial \$200 line of credit.

interest on purchases because it carried monthly fees (Applied Bank's Platinum Visa).

The lowest annual percentage rates (APRs) in the survey are 7.99% on HSBC's Orchard Bank card (but beware of its 29.49% penalty rate), 8.99% on

Navy Federal Credit Union's card and 9.99% on cards from Applied Bank and USAA Bank.

Applied Bank's Platinum Visa, with a permanent 0% interest rate on purchases, seems like a deal, but the bank makes

See “Survey overview,” page 2

40th Anniversary event mixes maritime with merriment



By Michelle De Mooy

Consumer Action celebrated its 40th anniversary with a memory-filled event in Washington, DC on Oct. 18. Held at the Naval Heritage Center in downtown DC, the fundraiser was an enormous success, raising \$147,760 to support Consumer Action's work.

More than 140 guests, including members of Congress, government officials, community partners, consumer advocates, industry representatives and Consumer Action staff, mingled amidst a backdrop of maritime history.

The reception included the organization's annual Consumer Excellence awards for outstanding consumer reporter, legislator and community group. This year's recipients are Eileen Ambrose, financial correspondent for the Baltimore Sun; Representative Carolyn Maloney (D-NY); and the Opportunities Industrialization Center of DC, a Consumer Action community partner.

In her acceptance speech, Congresswoman Maloney spoke about the impact that Consumer Action has had in helping protect the rights of ordinary Americans.

“Consumer Action was involved in making financial reform happen right from the start,” Maloney said. “They were instrumental in developing the Cardholders Bill of Rights and in getting the historic CARD Act passed.”

Ken McEldowney, Consumer Action executive director, shared his perspective on the organization's expansion into a national powerhouse over 40 years, with its offices in San Francisco, Los Angeles, and Washington, DC. “We are proud to be here tonight knowing that our work has made a positive difference in people's lives over the past four decades,” said McEldowney.

He thanked Google, Tracfone, Capital One and Microsoft for providing major underwriting support. ■

See more photos and a list of supporters on page 4.



Top: Guests watch the award ceremony at the event. Above: Award recipient Eileen Ambrose, consumer reporter at the Baltimore Sun, is seen with Ken McEldowney, Consumer Action's executive director.

Photos by Stephen Baranovics

Consumer Action

www.consumer-action.org

Consumer Action has been a champion of underrepresented consumers nationwide since 1971. A non-profit 501(c)3 organization, Consumer Action focuses on financial education that empowers low- to moderate-income and limited-English-speaking consumers to financially prosper.

By providing financial education materials in multiple languages, a free national hotline, and an Annual Credit Card Survey, Consumer Action helps consumers assert their rights in the marketplace and make financially savvy choices.

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Chinese, English and Spanish spoken

San Francisco

221 Main St., Suite 480
San Francisco, CA 94105
(415) 777-9648

Email: info@consumer-action.org

Ken McEldowney

Executive Director

Michael Heffer

Business Manager

Kathy Li

Director, San Francisco (S.F.) Office

Nani Susanti Hansen

Associate Director, S.F. Office

Yamin Chai

Assistant Director, S.F. Office

Audrey Perrott

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Monica Steinisch

Senior Associate, Editorial

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Kinny Li, Cui Yan Xie

Project Associates

Tasneem Pitalwala

Administrative Assistant

Ricardo Perez

Mail Room Operations

Charles Ballinger, Rose Chan,

Schelly Gartner, Vickie Tse

Consumer Advice Counselors

Loven Ko, Robert La

Support

Los Angeles

523 West Sixth St., Suite 1105
Los Angeles, CA 90014
(213) 624-4631

Nelson Santiago, Linda Williams

Community Outreach Managers

Guo Guang Zhuo

Support

Washington, DC

P.O. Box 70037
Washington, DC 20024
(202) 544-3088

Linda Sherry

Director, National Priorities

(Editor, Consumer Action News)

Ruth Susswein

Deputy Director, National Priorities

Michelle de Mooy

Senior Associate, National Priorities

Alegra Howard

Associate, National Priorities

Joe Orozco

Development & Fundraising
Coordinator

Consumer Action News is printed by the Dakota Printing Company, using recycled paper and soy-based ink.

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Secured Credit Card Survey (2011)

Warning: All rates are subject to change. Before applying for a new credit card, verify all information with the issuer. Please note that Consumer Action does not endorse any of the products in its surveys.

Issuer/Bank	Name of Card	Annual Percentage Rate (APR) on Purchases (Variable ¹ or Fixed)	APR on Cash Advances
Applied Bank	Gold Visa	9.99% (Fixed)	9.99% (Fixed)
Applied Bank	Platinum Visa	0% (Fixed)	9.99% (Fixed)
Bank of America	Fully Secured Visa	20.24% (Variable)	24.4% (Variable)
Capital One	Secured MasterCard	22.9% (Variable)	24.9% (Variable)
Citibank	Secured MasterCard	18.24% (Variable)	25.24% (Variable)
Fifth Third Bank	Secured MasterCard	23.99% (Variable)	24.99% (Variable)
First Premier	Centennial Secured ²	19.99% (Fixed)	19.99% (Fixed)
The Golden 1 Credit Union	Golden 1 Secured Visa	17% (Fixed)	17% (Fixed)
HSBC	Orchard Bank Secured MasterCard	7.90% (Variable)	24.9% (Variable)
Navy Federal Credit Union	nRewards Secured	8.99% (Variable)	10.99% (Variable)
USAA	Secured MasterCard	9.99% (Variable)	9.99% (Variable)
U.S. Bank	Secured Visa	20.99% (Variable)	20.99% (Variable)
Wells Fargo	Secured Visa	18.99% (Variable)	23.9% (Variable)

Footnotes

¹Variable rates typically are tied to the Prime Rate, which was at 3.25% during the survey.

²The security deposit depends on applicant's credit history—those with better credit histories only may be

Survey overview

Continued from page 1

up for interest with \$119 per year in “maintenance” fees charged in monthly installments of \$9.95. Take a cash advance on that card and you’ll pay a fee of 5% of the amount, and interest begins to accrue immediately at 9.99%.

Excluding the 0% Applied Bank card, the average APR on surveyed secured credit cards is 16.60%.

“While rates are low on some secured cards, we caution consumers to check out all fees and to use these cards as credit building tools,” said Consumer Action’s Linda Sherry. “The focus should be on making timely bill payments so you can graduate to a regular unsecured card, rather than carrying a balance.”

Interest earned

Six of 13 issuers paid annual interest on security deposits between 0.50% (U.S. Bank) to 1% (Golden 1 Credit Union). When you pay off and close the account in good standing, the security deposit plus interest, if any, will be returned.

Approval not automatic

Secured credit card applications are not always approved just because you have the money to secure a credit line. Some card issuers limit approval to those who have not been through bankruptcy recently or those who have no recent delinquencies. Many issuers require that there be no late payments recorded on your credit report in the last six months. Wells Fargo requires applicants to have

an income of at least \$12,000 per year.

Most secured card applications can be completed online or by calling the issuers directly. First Premier Bank only accepts secured card applications online. Citibank, Fifth Third and U.S. Bank require applications be completed at local branch locations. Golden 1 Credit Union, Navy Federal Credit Union and USAA require memberships before applicants are eligible to apply for secured cards.

Minimum/maximum

Most banks require at least \$200-\$500 to open a secured card account. Maximum deposits range from \$5,000-\$30,000.

Bank of America and Wells Fargo allow security deposits of up to \$10,000, HSBC’s Orchard Bank, \$15,000, and Navy Federal, \$30,000.

(As noted, Capital One requires as little as \$49 to secure an initial credit limit of \$200, depending on the applicant’s credit score.)

Extra deposit, please

Some secured card issuers require that you deposit more money than the credit line that you receive. Surveyors found that Fifth Third bank requires a \$150 balance, in addition to the minimum \$300 deposit (totaling \$450) to receive a \$300 credit line. Golden 1 Credit Union requires 1.5 times the credit limit on deposit—for example, a \$375 deposit is required for its minimum \$250 credit line.

Cardholders may find that the annual fee reduces their credit limit when it’s posted. For example, on First Premier Centennial Secured Card only \$225 of the \$300 line of credit would be available until the \$75 annual fee is paid.

Building credit

The key to re-establishing a good credit record is not mysterious; It requires cardholders to make all monthly payments on time and to have that payment history reported to an independent source—the big three credit bureaus—to get “credit” for your responsible behavior.

Most cards surveyed send monthly credit reports to the three major credit bureaus: Experian, Equifax and TransUnion. Applied Bank sends reports to TransUnion and

Experian. (Information on which cards report to major credit bureaus is available on our website. See the full survey at <http://bit.ly/rLXiyY>.)

After about 12 months of on-time payment history, cardholders should have built the credit needed to apply successfully for an unsecured credit card.

Four of the surveyed issuers (Bank of America, U.S. Bank, Wells Fargo and USAA) automatically review secured cardholders for eligibility to “graduate” to an unsecured card. In these cases, issuers will notify cardholders that they are eligible to apply for an unsecured card, usually by sending them an unsecured offer in the mail. ■

Secured credit card applications are not always approved even with money to secure a credit line.

About the survey: The Consumer Action Secured Credit Card Survey was conducted between June–November 2011 by Alegra Howard, Ruth Susswein and Linda Sherry of Consumer Action. Visit the online version of this survey newsletter to download a PDF report with additional details about these cards.

Note: You are prohibited from using Consumer Action’s name or any reference to its surveys in advertising or for any other commercial purpose. © 2011

Minimum/Maximum Security Deposit	Annual Fee	Interest Earned on Deposit?	Automatic Graduation Review?	Grace Period (Interest free period if no prior balance)
\$200/\$5,000	None	No	No	No grace period
\$500/\$5,000	\$119 per year (\$9.95 monthly fee)	No	No	No interest on purchases
\$300/\$10,000	\$39	No	Yes	25 days
\$49, \$99 or \$200 ² for initial \$200 line of credit/\$3,000 maximum security deposit	\$29	No	No	25 days
\$200/\$5,000	\$29	1%	No	At least 23 days
\$450/\$5,000	\$24	Yes (varies by state)	No	At least 21 days
\$200/\$5,000	\$50	No	No	27 days
\$375/\$1,500	None	1%	No	25 days
\$200 (\$375 deposit required)/\$15,000	None first year, then \$35	1%	Yes	25 days
\$500/\$30,000	None	No	No	25 days
\$250/\$5,000	\$35	0.92%	Yes	25 days
\$300/\$5,000	\$35	0.50%	Yes	At least 24 days
\$300/\$10,000	\$18	No	Yes	25 days

required to secure part of the initial \$200 line of credit. If approved, you can deposit additional money, up to \$3,000, to secure a larger credit line.

³As of month 13, this card may automatically increase your unsecured credit line and charge you a fee of 25% of the increase.

Scouting out a secured card

By Ruth Susswein

Secured credit cards are as varied as their better-known cousins, regular unsecured credit cards. It used to be that the main difference between secured and unsecured cards was a security deposit but now some issuers have gotten creative with partially secured cards and zero-interest cards with hefty annual and/or monthly fees. It’s rare to find a secured card without an annual fee, but beyond that, rates, fees and terms vary widely.

The best secured card deals to look for have low interest rates and low annual fees, and pay interest on your security deposit.

When you apply for a secured credit card, you deposit money into a bank account and in return you will receive a credit line that in most cases is equal to your deposit. For example, you send “Issuer of Your Choice” a refundable \$500 “security deposit” and you get a credit card with a \$500 credit line. The bank keeps your money until you pay off any balance and fees and close the account. If you fail to pay for several billing cycles, the bank considers you a loss and confiscates your security deposit.

Sometimes the issuer gives you more credit than the amount of your deposit. Some issuers increase your line whenever you add to the security deposit account. Watch out for issuers that will increase your credit limit without additional deposits but charge you a hefty fee on each

credit line increase.

If you’re looking for a secured card, check the fees and terms carefully, as many are buried in the fine print.

Consumer Action’s Secured Credit Card Survey found annual percentage rates (APRs) of interest as low as 7.90%. If you plan to “revolve” a balance on a secured credit card look for the lowest APR. Ideally, you will pay all transactions in full and on time each month, and use the card just to build a good credit history or improve a damaged credit record.

Got grace?

While issuers may not call it a “grace period” anymore, you’ll want a card that has an interest-free period on purchases you pay in full each month. Pay the bill on time and you’re golden. If you allow the balance to carry over to the next month, you lose the “grace” period and you’ll be charged interest on your existing balance and every purchase from the time you make it.

Fees and more fees

Some banks may charge you just to apply, although we did not find application fees on any of the cards in this survey. (Avoid cards that charge an upfront application or processing fee!)

The monthly fee is another term to avoid. Two surveyed banks, Applied Bank and First Premier, charge monthly (or maintenance) fees and/or credit line increase fees.

Cash advance, foreign transaction, returned payment, over-limit, late and “additional card” fees may exist on secured credit cards.

Credit limits

In past secured credit card surveys, Consumer Action found issuers that would extend a line of credit that was larger than the security deposit. In this survey Capital One offered to do this, but only for applicants who can qualify because of their credit history.

First Premier also extended extra credit initially but coupled it with hefty fees and exceedingly high interest rates.

Credit reports

The primary reason to get a secured credit card is to build—or rebuild—a strong credit profile. The one sure way to do that is by paying the card on time each and every month. Ask before you apply if your payment information will be sent to the big three credit bureaus, Experian, Equifax and TransUnion.

Even though you have the money to put into a security deposit, you might be prevented from getting a secured card. Some card issuers won’t issue cards to applicants who have filed for bankruptcy in the past year or who have a current delinquency or charged off account on their credit reports.

After one year of timely payments you may be eligible for an unsecured credit card. You may notice that other lenders start to court you with unsecured credit card offers in your mailbox. When you successfully apply for and receive an unsecured card, pay off and close the

secured card. Then ask the secured card lender to return your deposit.

After a time, you may receive an unsecured card offer from your secured issuer—if it offers unsecured cards. This is because some secured card issuers automatically review your credit history after you’ve had your secured card for a year or so. These lenders are interested in keeping your business but you may find a better deal by shopping around for a new card with credit unions or community banks.

There is always someone looking to make a buck, so be sure you don’t fall for a scam. Be wary of any company that “guarantees you’ll get a secured card if you pay them a significant fee,” warns Maxine Sweet, vice president of public affairs for Experian. In most cases all you get is a list of companies that offer secured cards, says Sweet. You can get that for free from Consumer Action, Bankrate.com and other sources. ■

Do secured cards carry a stigma?

When you use a secured credit card in a retail store, you and your issuer are the only ones who know it’s secured. It looks and operates like any other credit card.

According to Experian, one of the big three credit bureaus, secured credit cards aren’t flagged as secured on your credit report. Your secured card account is listed only as a revolving line of credit.

It is essential that secured card issuers report your timely payments to each of the big three bureaus (Experian, Equifax and TransUnion) as a way to rebuild your credit record. In our Secured Credit Card Survey, we have noted this information for each card in the full survey report, available for download from our website.

Scoring

A secured card can help you build a good credit record if you pay the bills on time. If you don’t, your credit can suffer.

Secured cards in and of themselves have no detrimental effect on your credit score, according to Fair Isaac Corporation, or FICO, the company that offers the credit-scoring model most widely used by lenders. The same holds true for a Vantage credit score from Experian.

Paying on time

More than one third of your credit score is based on your payment history—so paying your secured or unsecured credit obligations on time is the most important factor in building or rebuilding credit. Recent delinquencies, late payments and failure to repay credit cards and other extensions of credit can damage your credit score and mean that you will pay higher interest rates for credit, mortgages, home-equity loans and auto financing.

To see the difference that a good credit score can make to your bottom line visit myFICO’s Help Center (www.myfico.com/HelpCenter/FICOScores) to see a chart that compares various FICO scores with current mortgage, auto and home equity rates. ■ — R.S.

Get more news online!

Additional details about the cards in our Secured Credit Card Survey as well as articles related to secured credit cards can be found in the online version of this newsletter at www.consumer-action.org/news/ca_news.

40th event draws support and enthusiasm



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Photos: Top row, from left: Rep. Carolyn Maloney, who was honored for her work on credit card reform, with Consumer Action's Linda Sherry; Alexis Roberson, who accepted an award given to the Opportunities Industrialization Council of DC, which she heads. **Middle row, from left:** Kathy Li of Consumer Action and Lisa Hasegawa of National CAPACD; Maureen Ohlhausen, nominee to the Federal Trade Commission, and Brian Huseman of Intel. **Bottom row, from left:** Jason Alderman of Visa, Inc., who served as the chair of the honorary fundraising committee; Susan Weinstock of the Pew Charitable Trusts with Consumer Action's Ruth Susswein; Cleo Stamatos of the Consumermom blog.

Photos: Stephen Baranovics

Secured vs. subprime

By Ruth Susswein

Secured credit cards—backed by a customer's own security deposit—are designed for consumers with poor credit histories (or no credit record at all). Consumers who use the cards wisely can be in a position to qualify for a regular, unsecured credit card in a year or so. When they pay off and close the secured card account, the security deposit is returned.

Consumers should avoid the "chief competitor" to secured cards: high fee, low-limit, unsecured subprime credit cards. These so-called "fee harvester" cards have gained a deserved reputation as the bad boys of credit. (These are not among the cards we surveyed.)

While they don't require a security deposit, subprime credit cards are predatory products with lots of fees that more than earn their nickname, "fee harvester" cards.

"Consumers are better off using a

secured credit card than a subprime one even though it requires depositing money with a card company," says Linda Sherry, Consumer Action's director of national priorities.

In 2008, a company called CompuCredit fell into the regulatory crosshairs with its \$300 credit line offered to consumers with blemished credit. When cardholders deducted upfront fees, monthly fees and an annual fee, they were left with just \$114.50 of the \$300 limit even before they used the cards to make purchases.

The Federal Deposit Insurance Corporation (FDIC) charged CompuCredit with deceptive marketing and required it to refund \$114 million to customers.

Subprime cards are "like payday loans,"

Subprime credit cards are 'like payday loans.'
— Lauren Saunders,
National Consumer Law Center

says Lauren Saunders, managing attorney for the National Consumer Law Center. "They offer so very little for a very high price. To consumers, they might look reasonable on the surface, but the ads do not include the tiny amount of credit they provide and the hefty fees that eat into that."

Fight over fee limits

In the 2009 CARD Act, Congress limited fees on subprime "fee harvester" cards to 25% of the initial line of credit.

But the rule suffered a setback in September when a U.S. District court in South Dakota ruled that subprime cards can charge upfront application fees before an account is actually opened and that these fees don't count toward the 25% limit.

Sherry lamented the court's preliminary injunction on upfront fees. "The lawsuit was filed by a South Dakota company called First Premier that built its business

model on subprime cards. It's clear to us that Congress meant to limit the consumer costs on fee harvester cards. We are surprised that a court saw fit to allow companies to continue to gouge consumers desperate to gain access to credit."

Harvesting those fees

In researching secured cards, Consumer Action found that First Premier Bank offers some "partially secured" cards that could fit the definition of fee harvester cards. They have 49.99% interest rates with a \$75 annual fee AND monthly maintenance fees of \$6.50 (waived in the first year). Unfortunately, the CARD Act did nothing to limit credit card interest rates, so 50% interest, while unconscionable, is within the letter of the law.

All the First Premier cards examined by Consumer Action carry a 25% "credit limit increase fee." After 13 months the bank can increase your credit limit and automatically levy a fee equal to 25% of the increase—without you even asking! In the case of a \$100 line increase, the bank will add a \$25 fee to the account, which means you'll get only \$75 in additional credit until you pay the fee.

"You can see why they call these fee harvester cards," notes Sherry. "Steer clear of cards like these, because we found plenty of reasonable secured cards in our survey."

Consider all costs

Saunders cautions consumers to look very carefully at all the costs related to credit—no matter what type of card it is. She suggests starting the search with your own bank or credit union.

"Many credit unions and community banks do not have business models designed around predatory fees and interest. They are looking to build a personal relationship with customers," notes Saunders. ■

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