Secured credit cards can help build good credit

By Algera 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 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 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 $40 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 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 and 0% (Applied Bank Platinum Visa) to 11.99% on Navy Federal Credit Union’s card and 9.99% on cards from Applied Bank and USAA Bank.

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 MasterCard) 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%)

Interest paid on purchases because it carried monthly fees (Applied Bank’s Platinum Visa).

40th Anniversary event mixes maritime with merriment

By Michelle De Meyo

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, legislature 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 “Survey overview,” page 2

Photos by Stephen Baranovics
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.

<table>
<thead>
<tr>
<th>Issuer/Bank</th>
<th>Name of Card</th>
<th>Annual Percentage Rate (APR) on Purchases (Variable1 or Fixed)</th>
<th>APR on Cash Advances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applied Bank</td>
<td>Gold Visa</td>
<td>9.99% (Fixed)</td>
<td>9.99% (Fixed)</td>
</tr>
<tr>
<td>Applied Bank</td>
<td>Platinum Visa</td>
<td>0% (Fixed)</td>
<td>9.99% (Fixed)</td>
</tr>
<tr>
<td>Bank of America</td>
<td>Fully Secured Visa</td>
<td>20.24% (Variable)</td>
<td>24.4% (Variable)</td>
</tr>
<tr>
<td>Capital One</td>
<td>Secured MasterCard</td>
<td>22.9% (Variable)</td>
<td>24.9% (Variable)</td>
</tr>
<tr>
<td>Citibank</td>
<td>Secured MasterCard</td>
<td>18.24% (Variable)</td>
<td>25.24% (Variable)</td>
</tr>
<tr>
<td>Fifth Third Bank</td>
<td>Secured MasterCard</td>
<td>23.99% (Variable)</td>
<td>24.9% (Variable)</td>
</tr>
<tr>
<td>First Premier</td>
<td>Centennial Secured1</td>
<td>19.99% (Fixed)</td>
<td>19.99% (Fixed)</td>
</tr>
<tr>
<td>The Golden 1 Credit Union</td>
<td>Golden 1 Secured Visa</td>
<td>17.6% (Fixed)</td>
<td>17.6% (Fixed)</td>
</tr>
<tr>
<td>HSBC</td>
<td>Orchard Bank Secured MasterCard</td>
<td>7.90% (Variable)</td>
<td>24.9% (Variable)</td>
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<tr>
<td>Navy Federal Credit Union</td>
<td>nRewards Secured</td>
<td>8.99% (Variable)</td>
<td>10.99% (Variable)</td>
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<td>Secured MasterCard</td>
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<td>9.99% (Variable)</td>
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<tr>
<td>U.S. Bank</td>
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<td>20.99% (Variable)</td>
</tr>
<tr>
<td>Wells Fargo</td>
<td>Secured Visa</td>
<td>18.99% (Variable)</td>
<td>23.9% (Variable)</td>
</tr>
</tbody>
</table>

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—which 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 $9.9%: Take a cash ad-

vance 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%.

“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 issuers require additional criteria before making a decision. That means you should have a credit score above 640, and ideally above 700. You should also have a history of using credit responsibly, with no late payments and no new credit accounts in the last six months.

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 pay-
ment 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.
Scouting out a secured card

By Ruth Susswein

S

cured and unsecured cards was a security deposit but now some issuers have gotten
tensive 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 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 “Is-

“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 Corpora-

tion, 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 rebuild-

ing your credit. 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 minimum mortgage, auto and home

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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.consumeraction.org/news/ca_news.
Secured vs. subprime

By Ruth Saunders

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 Compu-Credit fell into the regulatory crosshairs with its $300 credit line offered to consumers with blimished 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 cardholders are “like payday loans,” 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 harvesters” 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.