CONSUMER ACTION NEWS

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2007 Credit Card Survey

Universal default:

Gone or just hiding out?

One of the most egregious anti-consumer credit card practices—universal default—still appears to be alive and well and living in another section of your cardholder agreement.

In early 2007, most major issuers deny that they employ "universal default" policies to hike interest rates based solely on the way customers handle their other credit accounts such as car loans, mortgages and revolving credit accounts.

However, Consumer Action finds that many banks still use credit report information as a reason to make adverse account changes under their "change in terms" provisions. Knee-jerk interest rate hikes based on credit reports are unfair because of the very real probability that credit reports contain errors.

In recent months, major credit card issuers have made public statements before Congress and to the news media that they do not impose "universal default" on cardholders. When you drill down, the statements often hinge on how the term universal default is defined.

Universal default

Consumer Action defines universal default as an increase in rates based on the way customers handle other credit accounts. A universal default change in terms based on credit information must be "adverse"—the change costs cardholders more money.

Consumer Action draws a clear distinction between negative changes in terms based on a credit report and "penalty rate" hikes triggered by a cardholder's late payments, bounced payment

See 'Change in terms,' page 7

Survey at a glance

Issuers: 20 **Cards:** 83
Average APR: 14.53%

Variable Cards: 69*
Average Variable APR: 15.25%
Average Variable Rate Range: 8.25%-25.24%

Fixed Rate Cards: 15
Average Fixed APR: 11.34%
Fixed Interest Rate Range: 7.90%-15.49%

** One card counts as fixed and variable.*

Unforgiving policies for even minor rule infractions

Almost every credit card agreement includes "take it or leave it" terms that favor the lender. Among the terms that are shoved down cardholders' throats are penalty rates. If you pay your credit card bill late even one time—often by even one day—you can get hit with a painfully large late fee and your interest rate skyrockets to penalty rate status.

Depending on the issuer, you may be in interest rate purgatory for a long time—maybe for as long as you keep that card.

If you are turned down for credit, the law requires that you receive advance notice explaining why. But if you are hit with a penalty rate hike or other punitive change in terms, there is no requirement to notify you in advance of your next statement.

From 1995-2007 the average late fee has more than doubled from $13 to $28—and fees are as high as $39 per incident. If that's not bad enough, then you get socked with a penalty rate. This year's penalty rates run as high as 32.24%—on average they are 24.51%. Late payments result in higher penalty rates with 85% issuers—an increase from the 2005 finding of 79%.

Penalty rates

Penalty rates are much higher interest rates triggered when you pay your credit card bill late—even once. Shrinking grace periods are contributing to the painful problem because you get less time to pay.

Your credit card's grace period is

See 'Penalties,' page 6

Lowest rate credit cards

Variable Rates

APR	Annual fee	Bank (card name) and web site
7.90%	None	Capital One (Platinum Prestige) www.capitalone.com
8.25%	$19	Wells Fargo (Prime Rate Card) www.wellsfargo.com
9.25%	None	First Command Bank (Platinum) www.firstcommandbank.com
9.99%	None	Washington Mutual (Platinum) www.wamu.com
10.15%	None	EverBank (EverCard Platinum) www.everbank.com

Fixed Rates

APR	Annual fee	Bank (card name) and web site
7.90%	None	Bank of America (Various cards) www.bankofamerica.com
7.92%	$50*	Arkansas National Bank www.anbfinancial.com
7.99%	$35-$50	Pulaski Bank & Trust (Standard & Gold) www.pulaskibank.com
9.90%	None	Capital One (Platinum Max) www.capitalone.com
9.99%	None	Bank of America (Various cards) www.bankofamerica.com

**Annual fee waived with no-minimum-balance ANB account.*

About the credit card survey

The 2007 Credit Card Survey was conducted between Oct. 9, 2006 and March 2, 2007. Consumer Action examined 83 cards from 20 banks, including the top 10 U.S. credit card issuers.

Consumer Action prohibits the use of its name or any reference to its surveys in advertising or for any other commercial purpose.

The issuers surveyed are Amalgamated Bank of Chicago, American Express, Arkansas National Bank, Bank of America, BB&T Bank, Capital One, Chase, Citi, Commerce Bank, Discover, EverBank, First Command Bank, Franklin Templeton Bank & Trust, GE Money Bank, HSBC, Metropolitan National Bank, Pulaski Bank & Trust, US Bank, Washington Mutual and Wells Fargo.

The survey contains 69 variable rate cards and 15 fixed rate cards. (One card from HSBC is issued with either a variable or fixed rate, depending on the applicant.)

For a complete list of surveyed cards and interest rates, go to www.consumer-action.org and click on "CA News."

With the exception of variable rates, APRs haven't changed much since Consumer Action conducted its last survey in 2005.

Purchase APRs

The average purchase interest rate on all surveyed cards is 14.53%—about 2 percentage points higher than our 2005 finding and attributable to the sharp increase in the Prime Rate in the past two years. (The Prime Rate was 6% during the 2005 survey and 8.25% during the current survey.)

The range of purchase interest rates for all cards is 7.9% (Bank of America, certain fixed rates cards) to 25.24% (top tiered rate charged by Metropolitan National Bank). This spread has actually narrowed by 2.6 percentage points since 2005, when Consumer Action found a range of 6%-24.94%.

This year, the 15 fixed rate cards

See 'About the survey,' page 4

Consumer Action

www.consumer-action.org

Consumer Action is a non-profit 501(c)(3) advocacy and education organization founded in 1971. CA publishes surveys and distributes multilingual educational materials in printed form and on the Internet.

Referrals and advice

CA will provide nonlegal advice and referrals on consumer problems. Chinese, English and Spanish are spoken.

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Buyer beware when transferring a card balance

More issuers than ever are using 0% interest to lure your business away from other banks. The offers are everywhere: "0% on balance transfers through 6/1/08." "Pay 0% interest when you transfer a balance."

If you want to pay down a balance while saving some interest, you can't do much better than that. Or can you?

In Consumer Action's most recent Credit Card Survey, 45 out of 83 of the cards surveyed had a 0% balance transfer offer. (That's a 38% increase since 2005.) The 0% deals last from three to 12 months.

The real deal is always in the fine print. In this case, 0% sounds like free money but many banks charge a balance transfer fee, even if you transfer a balance during the application process. It can cost 3% of the amount you transfer to move credit card debt to another card. Consumer Action found that fewer than half (43%) of the cards with balance transfer promotions would waive the fee. But it's worth asking issuers to remove the fee to earn your business. *(See chart below for some fee-free 0% balance transfer offers.)*

Some issuers cap the fee at $50 or $75, but in many instances there is no limit on the fee. We found that 32% of balance transfer offers have no cap on the fee. That means that someone transferring a $10,000 balance could pay a $300 fee!

Does the deal work out in a cardholder's favor? It depends.

On a $2,500 balance on a 17% interest credit card, paying a 3% monthly minimum payment for three months would leave you with a balance of $2,383 and incur interest of $104. If you transferred the $2,500 to a card with a 0% introductory rate for the first three months, you would save the $104 in interest. However, paying a $75 balance transfer fee would reduce your savings to $29.

In general, the longer the introductory rate and the larger your balance, the more you'll save by transferring a balance. If you transferred $10,000 from a 17% interest card to a card with a 12-month 0% introductory rate, in the first year you could realize an impressive savings of more than $1,500 in interest. But a possible $300 balance transfer fee would eat up 20% of those savings.

"If you are going to pay all this money for a fee, make sure to get a year-long introductory rate," advises Consumer Action's Ruth Susswein. "And better yet, find an offer that waives the transfer fee."

It can be difficult to transfer large balances unless you have excellent credit. If your new issuer doesn't accept the entire balance transfer, you could be left with a balance on the old card, too.

To make balance transfer deals work in your favor:

- Choose a card that waives the balance transfer fee, or limits it.
- Pay a hefty chunk of the balance each month during the interest-free period.
- Select a new card with a low fixed rate after the promo ends.

Cardholders with large balances and good credit might want to consider American Express's low interest rates (1.90%-9.99%) on balance transfers that remain in effect until you pay off the balance. The offers have no balance transfer fees for new cardholders.

AmEx is the only surveyed issuer with "life of the balance" offers. Interest rates vary according to the card and the applicant's credit history. To get the deal, you must make the transfer with your application. If you pay late, the rate may increase.

This year, we found 11 cards with low interest rates (1.90%-9.99%) on balance transfers that waive the balance transfer fees for new cardholders. *(To see offers, go to www.consumer-action.org, click on CA News, and select the 2007 Credit Card Survey.)*

When accepting an introductory credit card offer, be aware that your payments will be applied to the lowest interest portion of your balance—like the 0% transfer—and not to higher interest parts of your balance, such as purchases and cash advances. (Some introductory rates are good for purchases, balance transfers and credit card checks.)

Such "payment allocation" practices are widespread in the industry. A recent Government Accountability Office (GAO) study found that the vast majority of card issuers apply your payment to the balance with the lowest interest rate. This practice allows your higher rate balances to compound faster, potentially costing you more money.

Balance transfer fees

Seventy five percent of the banks surveyed charge a percentage based fee when cardholders transfer a balance. Some banks will waive this fee for a time for new cardholders—typically for 30-90 days. Consumer Action's survey found waivers on cards from American Express, Bank of America, Citi, Discover and HSBC. But there are no hard and fast rules—read the fine print and call to ask before transferring a balance.

Balance transfer fees ranged from 2% of the amount transferred at Arkansas National Bank, to 3% at the majority (13) of surveyed banks. Five banks had no fees (BB&T, Capital One, First Command Bank, Franklin Templeton Bank & Trust and Pulaski Bank and Trust).

Limits on fees

Among surveyed banks with balance transfer fees, six have no caps on fees. Maximum fees range from $30 (Amalgamated Bank of Chicago) to $250 (Citi Platinum Select card). Minimum balance transfer fees are far more common and range from $2.50 (Amalgamated Bank of Chicago) to $5 at 14 of the 20 surveyed banks.

The cost of transferring $10,000 after any introductory fee waiver ends ranges from $30 (Amalgamated Bank of Chicago) to $300 (AmEx, Bank of America, Citi, Commerce Bank, HSBC, Metropolitan Bank). ■

Balance transfer tips

Before transferring balances to a new card based on a low promotional rate, ask:

- How long does the lower promotional rate apply?
- Is there a balance transfer fee, and if so, how much will it cost? Will you waive the balance transfer fee for new cardholders?
- Will my new credit limit cover the amount I want to transfer? How long can I wait before transferring a balance and still avoid a fee?
- What's covered by the promo rate? Just my transferred balance, or do I get a break on purchases and convenience checks, too?
- Under what circumstances could I lose the promo rate before it is due to end? What rate would then apply?

Zero interest balance transfer offers with no transfer fees

All offers shown below apply only to balance transfers made on new cards. Check all details before applying.

Issuer/web site	Card names	Length of offer
Citi www.citicards.com	Driver's Edge Platinum, Home Rebate, Phillips 66-Conoco 76, Associated Bank Platinum, Universal Platinum	Six months
Discover www.discovercard.com	Miles Card	12 months
HSBC http://us.hsbc.com	No Annual Fee Platinum	Six months
Metropolitan National Bank www.metbank.com	Cash Rewards Platinum	Six months
Pulaski Bank & Trust www.pulaskibank.com	Classic	Six months

Big issuers charge big time for on-time phone payments

Payment related fees/policies are painful

Consumer Action's survey reveals that some issuers charge cardholders hefty fees to make on-time payments by phone. "It is inexcusable to charge people a fee to pay their credit card bills on time," said Ruth Susswein, deputy director of national priorities.

Thirteen out of 20 surveyed banks charged a fee for payments made by phone. The fees ranged from $3 at Amalgamated Bank) to $15 (HSBC), although Citi and WaMu charge only a nickel less at $14.95.

The average fee charged by these banks is $9.23.

Bank of America ($14.95) and Wells Fargo ($10) charge when you pay by phone with funds from another bank.

None of the banks charged people who pay online, however several banks had fees for "expedited" payments. These banks are Chase, with a $14.95 fee; HSBC, $15, and Everbank, $29. Bank of America has a charge of $14.95 for expedited phone payments. These are "convenience" payments made by phone or online at the last minute, but still before the due date.

If your bank returns your payment to the credit card company because you do not have the funds in your bank account to cover the payment, 81 (98%) of the surveyed banks will charge you a fee.

> Due dates that fall on Sundays or holidays are very common—and they can result in unjustified late fees.

The average bounced check fee at these banks is $32.78. Bounced check fees range from no fee (American Express Clear Card) to $39 on 31 cards.

The lowest fee found by Consumer Action is $20 at First Command Bank. In addition, Consumer Action discovered that many banks will charge a comparable fee if you write a credit card convenience check that causes your credit card to go over limit or if you ask to stop payment on a credit card check.

Late payment fees

In 1995 Consumer Action found an average late fee of $13, with no company charging more than $18. In 2007 the average fee has more than doubled—and late fees are as high as $39 per incident.

Of 83 cards surveyed, 79 (95.18%) have late payment fees. This year's average fee of $28.02 is about 2% higher than our 2005 finding of $27.46. Fees range from $15 to $39. Four surveyed cards have no late fees: First Command Bank's Classic and Platinum, American Express Clear and Cap One No Hassle Miles.

It was in 2003 that Consumer Action first noted tiered late fees tied to the balance. Tiered late fees result in disproportionately higher late fees for cardholders with lower balances. This penalizes people with smaller balances more than those with high balances, who might legitimately be considered a greater risk if they default.

Fourteen issuers (70%) use tiered late fees tied to the cardholder's balance—up from 40% in 2005.

The average tiered late fee is $27.84, with a range of $26.33-$32.00. The average flat late fee is $28.92, with a range of $25 to $39 on cards with fees.

Cut-off times

How late does your payment need to be before you get hit with a late fee? To avoid a late fee, some banks require that your payment arrive before a certain hour on the due date. These times vary widely. BB&T Bank will not credit your payment after 2 p.m. ET on the due date, Chase requires payments by 4 p.m. ET, and Citi has changed its 2 p.m. cut off to 5 p.m. ET.

Only five banks (Arkansas National Bank, Capital One, Commerce Bank, Franklin Templeton and Pulaski Bank & Trust) extend a leniency period after the due date. Depending on institution, these banks grant leniency of three days or more before a late fee is applied.

Non-business due dates

Many people have asked Consumer Action about their rights when it comes to due dates that fall on Sundays or holidays, a very common occurrence. Consumer Action attempted to answer the question by asking customer service representatives, "Will I be charged a late fee if the due date falls on a weekend or holiday?" Of 20 banks, seven representatives answered "yes," five "no," seven "don't know," and on one card it was impossible get a straight answer.

A Pittsburgh, PA, man wrote to us in March to complain that Bank of America had sent his bill with a due date of Monday, Feb. 19, which was a legal holiday. He wrote: "They would not accept online payments on Feb. 17, 18, or 19. They accept payments only Monday through Friday, not including holidays. The due date is then Feb. 16 if you do not want to get hit with late fees."

"Charging people a late fee when the due date falls on a non-business day is patently unfair," said Susswein. "If the mail is not delivered on your due date, how can you avoid a late fee? This policy is an excuse to charge unjustified late fees." ■

Credit card cash advances: The new payday loan?

It can be costly to use your credit card to get some cash. And did you know that using a credit card check is the same as taking a cash advance?

When you use your credit card to withdraw cash or write a credit card check, the transaction is subject to an upfront fee of 2%-4% of the cash advance and, in most cases, a higher rate of interest. Cash advances are not subject to a grace period—interest starts to accrue immediately on the day you take the cash advance.

Cash advance	Cash advance fee	Minimum fee	Cash APR	Finance charges
$100	3%	$10	24.24%	—
One month costs	—	$10	$2.02	$12.02
Annualized finance charge	—	—	144.00% APR	—

Payday loan rates?

If you take a $100 cash advance for only one month, it can cost you $12.02 in fees and interest. Annualized, that's about 144% interest. *(See chart with this story.)*

Consumer Action's Ken McEldowney said, "Credit card issuers are approaching payday loan rates."

Payment allocation

A little known credit card industry practice called payment allocation also adds to the potential cost of a cash advance. You may think of your credit card balance as one single amount—your credit card company sees it as a pie cut into segments. Your balance may be subject to several interest rates:

- Balance transfers
- Purchases
- Cash advances

When you send a monthly payment to your credit card, it is applied to the balances with the lowest APRs first. For instance, your payment will pay off the 1.99% balance transfer before it touches the 23% cash advance balance. This means your more costly balances grow faster because the 23% balance is not being reduced at all, while interest continues to compound daily.

Banks say that cash advances are a risky business—they cost more to process and frequent users are more likely to default.

(Remember, on cash advances, interest begins to accrue immediately —even if you do not carry a balance.)

APRs of 28% plus

The highest cash APR we found is 28.24% on several Chase "standard" rate cards.

The average cash advance rate is 21.65% on all cards, with a range of 7.92% (Arkansas National Bank) to 28.24% (Chase).

Of the 83 cards surveyed, 74 (89%) have higher APRs for cash advances. (That's up 14% from 2005.)

The average purchase rate on these 74 cards is 14.91%—the average cash rate of 23.09% is 8.2 percentage points higher than the purchase rate.

Sixty-eight cards (82%) feature variable cash advance rates and 14 are fixed.

On 18 cards, the cash advance APR was expressed as a range—the final rate is dependent on the individual applicant's credit history.

Among the 82 cards that allow cash advances, cash advance fees range from 0% of the amount advanced (American Express Clear Card, and all First Command Bank and Pulaski Bank & Trust cards), to 5% (HSBC Orchard Bank Gold Card). The average cash advance fee is 3.07% of the amount advanced.

Few caps found

Cash advance fees are capped on just 8% of cards with these fees. The average maximum fee is $35 with a range of $20 (Arkansas National Bank) to $50 (HSBC).

Caps, or maximum charges, which are growing rare, protect consumers from higher fees, but minimum charges are often higher than a strict percentage-based fee.

Minimum charges apply on 78 of the surveyed cards. These minimum fees range from $2.50 (Amalgamated Bank of Chicago) to $15 (HSBC), with an average minimum fee of $7.08. ■

Sweeping credit card reform bill

On May 15, Senator Carl Levin (D-Michigan) introduced broad legislation to curb abusive credit card lending practices.

The "Stop Unfair Practices in Credit Cards Act" would forbid practices recently exposed by Levin in hearings of the Permanent Subcommittee on Investigations that allow credit card issuers to assess unjustifiable fees and interest rate charges.

The bill, which has the broad support of many national consumer organizations including Consumer Action, would ban:

- **Retroactive interest charges.** The bill would prohibit the widespread practice of charging higher interest rates on balances incurred before a rate increase went into effect.
- **Outrageous interest rate hikes.** It would limit "penalty" interest rate increases to 7 percent above the previous rate if the consumer fails, for instance, to make a payment on time.
- **Repeat over limit fees.** Over limit fees could only be charged once, unless additional charges increase balances above the account limit.
- **Fees for paying a bill.** Credit card companies could not charge a fee to allow consumers to pay a bill by telephone, on the internet or by mail.
- **Interest charges for on-time payment.** It would prohibit two cycle billing, residual interest and other practices that result in interest rate charges on balances that have been paid on time. ■

Watch your back (billing)

Residual interest and two-cycle billing can cost you more in finance charges

Sometimes called trailing interest, residual interest is a deceptive method of calculating credit card interest up until the day full payment is received.

Consumer Action discovered that nine of the 20 banks surveyed employ the practice. They include: Bank of America, Capital One, Chase, Citi, Commerce Bank, Everbank, Franklin Templeton Bank & Trust, HSBC and Pulaski Bank & Trust.

Two-cycle billing is a method of computing finance charges on your credit card account. Two-cycle interest policies calculate interest based on two billing cycles, instead of the more prevalent practice of determining interest only on the immediate billing cycle.

Two- cycle billing means that you pay interest on a portion of the same balance you paid last month, costing you more.

Residual interest

Residual interest is difficult to understand and disclosures about the practice in cardholder agreements are not standardized. *(See the chart with this article for an example of how residual interest works.)*

"Most people realize you lose your grace period if you are carrying a balance from month-to-month," said Sherry, "but who knew you could lose your grace period even when you paid in full the previous month? If you were carrying a balance for more than two months, residual interest is charged right up until the day your payment is actually received."

Consumer Action believes residual interest is an unfair and deceptive practice. Sherry points out that a cardholder who checked online to make sure the full payment had been received would see a zero balance, because trailing interest isn't added until the close of the subsequent billing cycle.

"Some people might not even open their next credit card bill, because they expect a zero balance," said Sherry. This could set off late fees and other penalties on the account.

Two-cycle billing

Consumer Action's survey found three banks using two-cycle billing, Discover, Chase and Washington Mutual.

Typically, two-cycle billing applies only when you go from paying your account in full to revolving a balance, or when your account goes from having a zero or credit balance to revolving a new balance.

As an example, a cardholder begins a billing cycle with a zero balance, charges $500 and makes an on-time payment of $450. Under double-cycle billing, the cardholder would be charged interest on the full $500, rather than on the $50 still owed.

Chase drops two-cycle

As the survey period ended, Chase announced shortly before a January Senate Banking Committee hearing on credit card practices that it would no long use two-cycle billing. Washington Mutual uses a two-cycle billing method which applies interest back to the date of each purchase made in the previous cycle.

The Government Accountability Office (GAO) released a report in September 2006 at the behest of Senator Carl Levin (D-MI) who heads the Permanent Subcommittee on Investigations. Two-cycle billing was among the practices condemned in the report.

Senator Levin stated that he found two-cycle billing "particularly galling. With double-cycle billing…consumers are charged interest on debt that has already been repaid. This is a dishonest way to make a few bucks at the expense of a responsible and unwitting consumer."

Levin warned that, "If credit card companies do not take the initiative to clean up their act, I will introduce legislation to ban these abuses." *(See page 3 for a description of the bill Levin introduced on May 15.)*

Since the majority of credit card issuers do not use two-cycle billing, it can be easy to avoid it. Check your statement to see if it exists on your card, and if so, look for a new card.

You can easily check which cards use two-cycle billing because this information is contained in the mandatory disclosure box on credit card offers. ■

Residual interest example

Here is an example of how the billing practice works: You purchase a $3,000 TV using your 17% APR credit card and decide to pay off the balance in three payments. You have a zero balance when you purchase the TV and you make no new purchases while you pay off the balance. Your payments are received and credited on the due date.

Month	Payment	Interest charges	Principal paid	Current balance
1				$3,000
2	$1,025.11	$37.50	$987.61	$2,012.39
3	$1,025.11	$25.15	$999.96	$1,012.43
4	$1,025.09	$12.66	$1,012.43	$0.00
5		$7.59*		$7.59

** This interest charge is figured on a balance of $1,012.43 for 20 days (the time between the close of your billing cycle and the day your final payment of $1,025.09 was credited). This example was prepared using an online calculator at Bankrate.com.*

A baby with a credit card?

Many authorized user accounts have no minimum age requirement

Most U.S. credit card companies do not provide individual credit card accounts to minors, because children are not able to enter into legal contracts. Parents who want their minor children to have a credit card can get them a card that is linked to the parent's account. The minor holding an additional card is called an authorized user.

Typically, authorized users are relatives or friends of the primary cardholder. For example, a parent might add a son or daughter to a card account to provide access to credit or for use in emergencies.

Some card issuers have a minimum age for authorized users, while others have no age limit. This year Consumer Action added a new question to its survey in order to determine bank policies for authorized users. The answers revealed that 75% of surveyed issuers had no minimum age requirement for authorized users.

American Express will not issue authorized cards to young people until they reach age 15; First Command Bank's minimum age is 16, and Arkansas National Bank, GE Money Bank and Pulaski Bank & Trust require authorized users to be at least 18.

"The authorized user relationship can be a good way to teach young people about the use of credit, but to have no minimum age when issuing credit cards for use by minors is not a responsible policy," said Consumer Action's Linda Sherry. "What use does a small child have for a credit card?

She noted that being an authorized user does not always result in a good credit history. Parents who start off with good intentions may default, or pay bills late, and saddle their child with a bad credit history.

Real cards for teens?

According to Dr. Robert Manning, author of *Credit Card Nation*, "Card companies encourage fantasies of easy money because students are so profitable. Teens have financial naïveté, high material expectations, responsiveness to relatively low-cost marketing campaigns, high potential earnings, and future demand for financial services. Not surprisingly, companies are approving credit lines for students at progressively earlier ages, including high school seniors."

Manning says that children's names, addresses and other information can turn up in the databases used by issuers to market credit cards and he charges that kids as young as 16 can get cards without parental permission.

Consumer Action is interested in hearing about any cases in which young people under 18 have been issued *primary* credit card accounts. Sherry invites anyone who can provide proof that this has happened to send her an email at editor@consumer-action.org.

"We hear that people under 18 are being issued credit cards under their own recognizance," said Sherry. "We'd like to know if companies are acting irresponsibly so that we can blow the whistle."

While the companies would not legally be able to collect on the debt, they could ruin the young person's credit, or apply enough pressure to get his or her parents to pay the debt. ■

About the survey

Continued from page 1

average 11.34%—almost flat since the 2005 finding of 11.15%—and the 69 variable rate cards averaged 15.25%. In 2005 the average variable interest rate was 12.96%, which corresponds to the two-year, 2.25 point increase in the Prime Rate.

Annual fees

The majority (60, or 72%) of surveyed cards had no annual fee—a 5% increase from 2005 when 67% did not have annual fees.

Annual fees on 23 cards (28%) ranged from $19 (Bank of America, BB&T and Wells Fargo) to $90 (Bank of America US Airways Signature and US Bank Northwest Airlines Signature). The average annual fee on these cards is $44.74—a 3% increase from 2005, when the average annual fee was $43.27.

Methodology

Consumer Action's survey data was collected using an intake form containing 95 questions. As a first step, surveyors cull information from published sources such as "take one" applications, web offers and solicitations received by staff members, volunteers and other consumers. During step two, surveyors call the companies posing as consumers who are interested in applying for a card. Surveyors call as many times as needed to obtain at least two duplicative answers.

Sylvia Sherry, Monica Steinisch, Martha Widing and Jennifer Daw Holloway worked under the supervision of Janice Kohn. Linda Sherry of Consumer Action directed the survey.

The last credit card survey conducted by Consumer Action was released in May 2005.

Survey history

Consumer Action has conducted its credit card surveys almost annually since the mid-1980s, which gives it a historical perspective on trends in the industry. However, given the nature of the credit card business, with frequent mergers and acquisitions and its tendency to offer "new and improved" cards on a regular basis,

See 'About survey,' page 5

Rewards cards

It pays to know your limits

By Jennifer Daw Holloway

Credit card companies are offering just about every type of reward you can imagine. Need a new digital camera? Rack up some points on your rewards card and it can be yours. Want cash back? Some companies pay you to use their cards.

But will the rewards cost you more than they are worth? Before you fill out an application for a rewards card, be sure you know the program's limits. Your rewards may become supremely unrewarding if you don't follow the rules.

Approximately 85% of American households have at least one rewards card. In its new survey of 83 credit cards, Consumer Action found that 62 cards offered rewards of one sort or another.

Many people make many everyday purchases using rewards cards. They seek to earn a solid return, such as 1% or 2% cash back.

But rewards cards can have higher interest rates than regular credit cards; so carrying a balance may quickly outweigh your reward. Morever, if you pay late, you may lose the rewards you earned in the current billing cycle.

These are some important things to consider if you're eyeing a rewards card:

Know the limits. Many rewards cards cap the number of points or miles you can earn. For example, the Bank of America Elite Rewards World card limits your points to 7,500 per month. Most air travel rewards cards limit the number of miles you can earn.

Use it or lose it. Most rewards have an expiration date—usually between three and five years. To maintain your rewards you must keep your card active by redeeming points or miles or by continuing to make transactions with the card.

Travel rewards cards can be tricky. You might not be able to use your airline miles when you want because of blackout dates or limited rewards seats. Airlines often designate only a handful of rewards seats on each flight, and they can fill up quickly. And most airline rewards cards won't let you use your miles for package vacation deals.

Watch out for hidden costs. Some rewards cards, such as the JetBlue card from American Express, offer double miles for paying your income taxes with your card. But you'll have to pay a hefty "convenience fee" to a third party that processes the transaction for the government—and that could cost more than your reward.

Avoid annual fees. A yearly fee can cancel part of your reward. Many rewards cards now come with no annual fees.

Know where to shop. Most rewards cards stipulate that your "everyday" purchases are at places like grocery stores and drug stores, not discount or department stores. So if you shop at Wal-Mart or Kmart, you won't earn points for those purchases. Some cash back cards offer extra cash back for "everyday" purchases, such as the Chase Freedom Points card, where you can earn 3% cash back. But after you spend $600 per month in "everyday" purchases, you'll get only 1% back. ■

A sampling of the more robust rewards found in our survey

Consumer Action found that 62 of the 83 cards it surveyed offer some sort of reward. Since card issuers frequently market new cards, these offers may no longer be available. Check issuer web sites (or your mailbox) for new offers. Always read the fine print so that you are aware of any limitations on rewards—and remember, all offers can be changed.

Issuer	Card name	Rewards or other incentives
American Express www.americanexpress.com	Blue Cash	Once yearly purchases reach $6,500, you can earn 5% cash back. Before that time, earn 0.50%-1% cash back on purchases.
American Express	Clear	Cardholders are sent a $25 AmEx gift card for every $2,500 in purchases charged to the card. Merchandise rebates are also available.
Bank of America www.bankofamerica.com	Dodge Rewards	Earn points toward the purchase or lease of a new, used or certified pre-owned Dodge, Chrysler or Jeep vehicle and for parts or service at dealerships.
Bank of America	Money Return Platinum Plus	10% cash back on interest payments each year.
Capital One www.capitalone.com	No Hassle Miles Platinum Rewards	Airline travel miles. Redeem miles on any airline. One mile per $1 in purchases. (May offer two miles per $1 for a limited time.) 15,000 miles = $150 ticket; 35,000 miles, up to a $350 ticket, etc.
Chase www.chase.com	Chase Freedom	Three points per $1 at certain retailers; otherwise one point per $1. Switch your reward anytime to earn cash back instead of points.
Chase	Chase PerfectCard (code: 64DY)	Earn 3% rebate on eligible gas purchases (6% for the first 90 days); 1% rebate on other purchases.
Chase	Free Cash Rewards Platinum (code: 64D8)	Cash back reward. Get a $25 check or gift certificate for every $2,500 in purchases/interest.
Citi www.citicards.com	Driver's Edge Platinum	Merchandise rebates. Earn 6% rebates on purchases at supermarkets, drugstores and gas stations for 12 months; afterwards, 3%; earn 1% rebates on other purchases.
Discover www.discovercard.com	Gas Card	Cash back. 5% on gas, vehicle, mechanic or auto store purchases; up to 1% on non-auto purchases.
Wells Fargo www.wellsfargo.com	Cash Back	Cash back reward. Earn a reward of 0.25%-1% of each purchase, depending on your monthly use. You must spend at least $450 per month to get the full 1% reward.

About survey

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it is not always possible to provide direct apples-to-apples comparison of data from one year to the next. Whenever possible, Consumer Action includes this information in its published results.

Due to space considerations, we cannot include details about every surveyed card in the newsletter.

To find a complete list of all cards, contact information, interest rates and late, over limit and cash advance fees, visit Consumer Action's web site at www.consumer-action.org and click on "CA News" on the top navigation bar. You may also find our surveys using the "Select Publication Category" pull-down menu on the right. Pull down to "Pricing Surveys."

In addition, a full set of raw data will eventually be available from this page. If you have questions about the survey, email the Editor at editor@consumer-action.org. ■

Arbitration clauses prevalent

By using your card, you may be giving up your right to settle disputes in court

Consumer Action's new survey finds that the top 10 card issuers all require binding arbitration.

If your card is subject to arbitration, you cannot take a dispute to court—disputes must be settled by a private panel of arbiters usually chosen by the company. In most cases, decisions are binding—this means you have no right of appeal.

Sixty-three (75%) of surveyed cards require that cardholders settle disputes in these private forums. This figure may be even higher—Consumer Action received 12 "don't knows" and on three cards it was impossible for surveyors to get a clear answer. Of the issuers who gave a clear answer, only one bank (Amalgamated Bank of Chicago) and one card (the AARP card from Chase) do not require arbitration.

The Chase AARP card doesn't have a binding mandatory arbitration because the powerful association of people 50-plus specifically negotiated a contract that excludes the provision. Cards issued by credit unions and some small banks do not have binding mandatory arbitration clauses.

The prestigious National Consumer Law Center called these clauses "the single biggest threat to consumer rights in recent years, a de facto rewrite of the Constitution that undermines a broad range of consumer protections painstakingly built into law."

Many credit card issuers add "no class action" provisions to their arbitration clauses. They do this to prevent class action lawsuits, in which litigation is brought on behalf of multiple plaintiffs affected by the same practices.

Class action settlements and awards on behalf of plaintiffs can mean that millions, even billions, of dollars are returned to consumers who were harmed by the questionable practices.

If your cardholder agreement contains this type of provision, it means that you can't take individual disputes to court *and* that you agree not to join any class action lawsuits against the company. Several state judges, including California judges, have ruled that class action bans are unconscionable because they unfairly restrict a consumer's right to sue.

For more information on how binding mandatory arbitration negatively affects consumer rights, visit the "Give Me Back My Rights" coalition web site (www.stopbma.org.) ■

Change of terms provisions at the top 10 credit card issuers

Of the top 10 U.S. credit card issuers, Consumer Action found that nine had change of terms clauses in solicitation materials that allowed changes to existing cardholders' account terms. Of the nine, only two (American Express and Wells Fargo) do not mention a right to change terms because of credit report information or the consumer's record with other creditors. Capital One says it may change APRs or fees, etc. for "competitive or general economic reasons," and reserves the right to check credit history to determine the level of increase, "if any."

Name	Initial change in terms disclosures	Date of disclosure
Chase	Rates, fees, and terms may change: We reserve the right to change the account terms (including the APRs) at any time for any reason, in addition to APR increases that may occur for failure to comply with the terms of your account. For example, we may change the terms based on information in your credit report, such as the number of other credit card accounts you have and their balances. The APRs for this offer are not guaranteed; APRs may change to higher APRs, fixed APRs may change to variable APRs, or variable APRs may change to fixed APRs. ... We may consider the following factors to determine the default rate: the length of time your Account has been open; the existence, seriousness and timing of defaults; other indications of your Account usage and performance; and information about your other relationships with us, any of our related companies or from consumer credit reports.	© 2007 JPMorgan Chase & Co. Freedom Card. Downloaded on April 5, 2007. The disclosure contained this sentence: The information about the costs of the card described in this form is accurate as of 07/05/2006.
Bank of America	As required by law, rates, fees, and other costs of this credit card offer are disclosed here. All account terms are governed by the Credit Card Agreement sent with the card. Account and Agreement terms are not guaranteed for any period of time; all terms, including the APRs and fees, may change in accordance with the Agreement and applicable law. We may change them based on information in your credit report, market conditions, business strategies, or for any reason.	©2007 Bank of America Corporation. Downloaded on April 5, 2007. The disclosure contained this sentence: The information contained in this advertisement was accurate as of 4/1/2007.
Citi	Rates, fees, and terms may change: We have the right to change the rates, fees, and terms at any time, for any reason, in accordance with the cardmember agreement and applicable law. These reasons may be based on information in your credit report, such as your failure to make payments to another creditor when due, amounts owed to other creditors, the number of credit accounts outstanding, or the number of credit inquiries. These reasons may also include competitive or market-related factors. If we make a change for any of these reasons, you will receive advance notice and a right to opt out in accordance with applicable law.	Copyright © 2007 Citigroup. Downloaded on April 5, 2007.
American Express	The terms of your account, including APRs, are subject to change. The APRs for this offer are not guaranteed; APRs may change to higher APRs, fixed APRs may change to variable APRs, or variable APRs may change to fixed APRs. We may change the terms (including APRs) at any time for any reason, in addition to APR increases for failure to comply with the terms of your account.	The information in this application is accurate through 3/31/2007. Downloaded on March 5, 2007
Capital One	Other Reasons Your Terms Could Change: We reserve the right to change the terms of your account, including APRs and fees, at any time for other reasons, including changes to competitive or general economic conditions. How Your Credit History Could Affect Your APRs: We do not ... increase your APRs solely because you fail to make a payment on a loan with another lender or your credit history contains other negative information. If we ever consider increasing your APRs for any reason disclosed in the above paragraph(s), we may review your credit history to determine (a) that we should not increase your APRs, or (b) the level of the increase, if any.	The information about the costs of the cards described is accurate as of 04/01/07. Downloaded on March 5, 2007.
Discover	***No change in terms clause is included in its initial disclosures of terms and conditions online.***	***Not applicable.***
HSBC	We have the right to change your APRs, fees and other terms at any time, for any reason including, but not limited to, any change in your credit history, credit obligations, Account performance, use of your credit lines with us or any creditor, or our finanical return. Any changes will be in accordance with your Cardmember Agreement and applicable law. These cards are issued by HSBC Bank Nevada, N.A. and serviced by its affiliates, HSBC Card Services Inc. and/or HSBC Card Services (II) Inc.	© HSBC Card Services Inc. 2004-2007. Downloaded on March 5, 2007.
Wamu	We may change the APRs, fees, and other terms of your account at any time in accordance with applicable law and the Account Agreement, which we will send you when your account is opened. Factors we may consider in determining whether and how to change your terms include the frequency and severity of defaults and other indications of risk on accounts with Washington Mutual and/or other creditors.	The information above is accurate as of October 2006 and is subject to change. Downloaded on March 5, 2007.
Wells	Application Agreement: You agree to be bound by the terms and conditions of the Customer Agreement and Disclosure Statement, which will be sent to you, and understand that the terms of your account may be changed at any time, subject to applicable law.	This information about the cost of the credit card account described in this application is accurate as of March 2007. Downloaded from online application on March 5, 2007.
US Bank	Your APR may increase if you fail to make timely payments to another creditor as reflected in your credit report. All Account terms are governed by the Cardmember agreement sent with the card. Account and Cardmember Agreement terms are not guaranteed for any period of time, we may change all terms, including APRs and fees, in accordance with the Cardmember Agreement and applicable law.	This information is accurate as of 04/2007 and may change. Downloaded on April 5, 2007.

Penalties

Continued from page 1

the number of days in which finance (interest) charges do not accrue if you do not carry a balance. The grace period dictates the number of days between the close of each billing cycle and your due date. Consumer Action's survey found that among the top 10 credit card issuers, the average grace period is now 22 days. The average among these issuers has shrunk by more than three days since 1995.

Only three surveyed banks did not have a penalty rate (Amalgamated Bank of Chicago, Arkansas National Bank and First Command Bank).

Late payment triggers

Five issuers (Bank of America, Citi, GE Money Bank, HSBC and Washington Mutual) said that a payment not received by a certain hour, i.e. 4 p.m., on the due date would trigger a penalty rate hike.

Three surveyed issuers had tiered penalty rate policies—the first late payment triggers one increase and the second results in an even higher punitive rate.

Five issuers would raise rates after two late payments—either two consecutive, two per year or two in six months.

Many card companies also impose penalty interest rates when cardholders bounce a payment check or go over their credit limit.

Reversing the rate

All banks require the cardholder to ask for a reduction in the penalty rate—it is not automatic. Fifteen banks (75%) said they would lower the interest rate again if the cardholder maintained a good payment record. Only Everbank said it would not. (At four banks, representatives answered "don't know.")

Among the 15 banks, six would consider lowering the penalty rate after six months of on-time payments; two, 12 months; two, five months; one "when current;" one, 6-9 months, and one, 3-6 months.

Three banks (Metropolitan National, US Bank and Wells Fargo) said the rate might be reduced to the original APR before the penalty rate was imposed. Most banks said the decision would vary by cardholder. When asked if it was possible to get back to the original APR, 10 banks said yes and four, no. Representatives at six banks were unable to answer the question. ■

Credit limits are not set in stone

Most cardholders find that their card issuers provide automatic credit limit increases on a regular basis. But this upward spiral does not always last forever—issuers also reduce credit when cardholders exhibit certain risky behavior.

Fifteen surveyed banks (75%) said they employ this practice. Representatives from three banks said they did not know if their employers used such a practice, while two banks (Capital One and Pulaski Bank & Trust) said credit limits were reduced only in response to a cardholder's request.

The 15 banks might reduce credit limits under these circumstances:

- Poor credit history or lower credit score.
- Not paying on time or going over limit.
- Bouncing a payment check.
- You become a risk.
- Your performance on the account warrants a reduction.
- Higher debt-to-income ratio.

Minimum payment standards, warnings would strengthen cardholders' rights

Several years ago, federal bank regulators directed credit cards issuers to make sure that minimum payments on credit cards are large enough to reduce the cardholder's balance and not just cover finance charges or fees.

Regulators suggested, but did not require, that credit card companies make customers pay at least 1% of the outstanding principal balance every month, plus all interest, finance charges and over-the-limit fees.

Consumer Action's new survey found a confusing patchwork of minimum payment calculation methods. "The way the minimum payment is calculated is not disclosed up front so people can't compare offers based on this information," said Consumer Action's Linda Sherry. "This information should be disclosed in solicitations and other materials that are available to potential applicants."

Among the top 10 issuers, Consumer Action found nine methods for figuring the minimum monthly payment a cardholder must pay. *(See chart with this story.)*

Citi's policy is the most confusing—the issuer has at least three ways of calculating minimum payments. Citi cardholders must check their monthly billing statements to know which one applies.

Consumer Action believes it would benefit consumers if all banks used a standardized method of calculating the monthly minimum payment. It would also be helpful if the methods used to calculate the balance were disclosed to applicants in advance.

Historically, required minimum payments generally averaged about 5% of the outstanding balance, but in the last decade minimum payment requirements had fallen to 2%. The decrease meant that cardholders had lower monthly payments but it took much longer to repay balances and cost sizably more in interest.

Consumer Action's new survey found a confusing patchwork of minimum payment calculation methods.

Credit card disclosures are subject to the Truth-in-Lending Act and Regulation Z, and the Federal Reserve Board has oversight of these rules. In late 2004, the Fed began reviewing Regulation Z requirements concerning the format and content of open-end credit disclosures and substantive protections provided to consumers. Its revisions are expected this year.

Payment warnings

In March 2005, Consumer Action's reply comments stated that the Fed should require that potential customers as well as existing cardholders be clearly informed about how the minimum payment is arrived at. We suggested that the disclosure appear on solicitations as well as account statements.

In addition, Consumer Action believes that alerting cardholders to the effects of making only minimum payments should become a core credit card disclosure requirement. We asked the Fed to provide each cardholder with a personalized disclosure of the time it will take to pay off a balance when making only the minimum payment.

A personalized notice specific to an individual cardholder's situation has great potential in prompting cardholders to send in more than the monthly minimum payment, which can reduce their debt and overall interest dramatically.

Consumer Action also supports two bills in Congress that would require a personalized minimum payment requirement, Senator Daniel Akaka's Credit Card Minimum Payment Warning Act (S 1176) and Rep. David Price's Credit Card Repayment Act (HR 1510).

To write to your lawmaker in support of these bills, go to Consumer Action's web site (www.consumer-action.org). On the right side of the home page, click on Take@ction under Advocacy. ■

Figuring your monthly minimum payment

American Express	Greater of: (1) 2% of balance, or (2) $15, or (3) all finance charges plus $15.
Bank of America	1% of balance plus all finance charges and fees; or, 5% of balance if no fees or finance charges apply.
Capital One	Greater of 3% of balance or $10.
Chase	Greater of $10; 2% of new balance; or sum of 1% of new balance including all new interest and fees.
Citi	(1) past due and over limit amounts added to the greater of $20 or 1/48th of balance. (2) past due and over limit amounts added to the greater of new interest and late fees; $20, or 1/48th of new balance. (3) past due and over limit amounts added to the greater of $20; 1% of balance plus interest and late fees, or 1.5% of balance. On accounts with APRs above 19.99%, add $5.
Discover	2% of balance plus outstanding fees.
HSBC Bank USA	Greater of 1% of the balance plus new interest and fees, or $15.
US Bank, Wells Fargo	1% the balance new interest and fees, or $20.
Washington Mutual	Varies by account. Typically includes a certain percentage of the balance plus all new interest, late and over limit fees.

Change in terms

Continued from page 1

checks or over limit transactions – on that card issuer's account.

All of the top ten U.S. card issuers, and most other issuers, have "default," or penalty rates and terms for cardholders who miss payments or otherwise fail to honor the company's contract (cardholder agreement). All top 10 issuers state that they may increase interest rates if cardholders pay late. Most also will impose penalty rates for exceeding the credit limit or bouncing a payment check.

Customer service representatives at 20 surveyed banks were asked: "Do you raise my interest rate because of my credit record with other credit cards or lenders?" At the time of the survey it appeared that Chase, Citi, Commerce Bank, Discover, Ever-Bank, Franklin Templeton Bank & Trust, GE Money Bank, HSBC, Metropolitan National Bank and US Bank would raise cardholder APRs based on information from credit reports and credit scores.

(As our surveying wrapped up, Citi announced it will drop universal default.)

Change of terms

Consumer Action advises cardholders to look beyond the default rates disclosures, to clauses in the fine print of solicitations and cardholder agreements commonly labeled change of terms provisions. This is the legal boilerplate that gives issuers the right to change APRs and other key terms at will—at any time, for any reason.

In early March, Consumer Action visited the web sites of the top 10 U.S. card issuers to review change of terms disclosures. Only one (Discover) did not include a change of terms notice. American Express and Wells Fargo feature change of terms provisions but do not include any reference to credit reports or scores as a reason to change the terms of the cardholder agreement. *(See the chart on page 6 for change in terms disclosures for the top 10 issuers.)*

"Very few card companies will admit to the universally decried practice of universal default," said Linda Sherry, Director of National Priorities at Consumer Action. "But it's compelling that nine out of the top 10 issuers reserve the right to change the terms of your cardholder agreement at any time, for any reason, including in many cases, explicit references to credit information."

Citi, the third largest card issuer, just this year promised to remove unilateral change of terms provisions from its cardholder agreements. On March 1, the issuer stated:

"Citi is also eliminating 'any time for any reason' increases to the rates and fees of its customers' accounts. Traditionally, credit card issuers have taken the position that they can increase the rates and fees of a cardholder's account at any time for any reason..."

"As a result of the new policy, Citi will not voluntarily increase the rates and fees of the account until the card expires and a new card is issued (typically two years). Now, the only reason the rates and fees will increase before the card expires is if a customer pays Citi late, exceeds the credit limit or pays with a check that bounces. [Rates linked to the] prime rate would change only as the prime rate moves up or down."

"This is meaningful change for Citi cardholders," said Sherry. "We hope other banks decide to follow Citi's lead and get rid of unilateral change in terms provisions."

Notification

Your cardholder agreement, the legal document that arrives along with your credit card, is a binding contract. By signing, validating and using a new card, you are agreeing to the terms. But most banks reserve the right to change your terms at any time, for any reason.

Federal law requires that advance notice of material changes in terms be mailed or delivered to you at least 15 days prior to the effective date. However, there is no requirement for advance notification if the change is the result of something the cardholder is perceived to have done wrong—including paying late, going over credit limit, bouncing a payment check or allowing your credit history to deteriorate.

Of the 20 banks surveyed, most provide notification of change of terms in a letter, bill stuffer or statement message.

What can you do if your terms are changed? In most cases, not much. If you reject the change, usually you will be asked to close the card and pay off the balance in full.

Consumer Action found that a few of the surveyed banks (Capital One, Chase and Citi) offer the right to "opt out" of the change. Opt out means that you can reject the change and, under certain circumstances, pay off the remaining balance under the old terms, even though the account is closed and you can't use the card. Citi allows you to continue to use your credit card (under the old terms) until the card expires.

Federal 'opt out' law?

"Many consumers believe that opt-out is protected by federal law," said Sherry. "While a few states require it, there is no national rule. Basically, national credit card issuers set the rules and you have to live with them."

Rep. Mark Udall (D-CO) has introduced a bill to protect consumers from abusive practices—and give them the right to reject an adverse change in terms without having to pay off the balance immediately. HR 1461 would help control anti-consumer credit card practices such as universal default and would require greater disclosure to consumers about interest rate hikes and fees.

You can support this bill and others like it by visiting our web site (www.consumer-action.org) and clicking on Take@ction on the right side under "Advocacy." ■

Lawmakers eye 'embarrassing' credit card industry practices at several hearings

By Ruth Susswein

Credit card issuers have been on the hot seat in Congress this spring. Since the 110th Congress opened in January under Democratic control, there have been three Congressional hearings focused on credit card industry practices. In January, the Senate Banking Committee held the first, followed by a Senate Permanent Subcommittee on Investigations hearing in March and a House Subcommittee on Financial Services and Consumer Credit hearing in April.

CA testimony

Consumer Action's Director of National Priorities Linda Sherry testified at the April 26 House hearing about hidden terms and conditions that credit card issuers divulge only after a consumer applies for credit. She highlighted the unfairness of a common anti-consumer practice: changing the terms of the credit card contract in mid stream, even when a cardholder has a spotless record with that company. "Consumer Action regularly hears from consumers who see their interest rates spike to more than 30% APR because they carry higher balances on other cards or have too many new accounts," Sherry told Congress.

Legislation?

"Cardholders have no way of knowing what the terms on a credit card will actually be until the card arrives in the mail," said Sherry.

Subcommittee Chair Carolyn Maloney (D-NY) warned that "if industry fails to make meaningful changes" to some of its worst practices, legislation may be the solution.

No credit card company executives testified at the House hearing—a representative of the American Bankers Association appeared instead.

On March 7, the Senate Permanent Subcommittee on Investigations questioned CEOs from three of the nation's leading credit card companies about their practices. The card chiefs tried to defend some of their companies' most punitive practices, such as penalty interest rates, hidden fees and moving-target rules that only change to benefit the card issuer.

At the hearing, Chase publicly apologized to one cardholder it buried in debt by charging him 47 separate over limit fees on the same original balance. His credit card debt had tripled even though he made steady payments and no new charges. *(See "Congress spotlights unfairness of over limit fees" below.)*

Issuer concessions

Chase, which at an earlier Senate hearing this year had agreed to stop using a deceptive interest rate method called two-cycle billing, said it will not charge for more than three over limit fees in a row.

A few days before the hearing, another top 10 issuer, Citi, announced that it would eliminate the use of "universal default"—raising your interest rate because a credit review reveals late payments to other companies and creditors.

Citi also said it will no longer reserve the right to change cardholder terms at any time, but would wait until the card's expiration date to change terms except when cardholders pay late, bounce a payment check or go over limit.

A Bank of America executive admitted that credit card disclosure statements are "impossible for the average person to understand."

**No one has to be an engineer to buy a toaster...it's time for a national safety standard for credit cards as well.
— Elizabeth Warren, Harvard University**

Subcommittee Chair Senator Carl Levin (D-Michigan) said he welcomed these reforms. But he said strongly that he was unimpressed with the card chiefs' justifications for the punitive practices.

Unfair 'pay to pay'

Levin scolded some card companies for charging a $5 to $15 fee to "pay to pay" your bill over the phone. Levin also groused about grace periods that only apply to people who do not carry balances and the fact that added fees and interest charges push many cardholders to exceed their credit limits—for which they are then charged an over limit fee.

At the Jan. 25 hearing, Senate Banking Committee Chair Chris Dodd (D-CT) warned issuers that he was "putting the credit card industry on notice" to clean up some of its "embarrassing" practices if it wanted to avoid legislation that would force it comply. January's credit card hearing focused on penalty fees, including hair-trigger late fees, and unfair billing and marketing practices.

Harvard University Professor Elizabeth Warren testified that the credit card market is laced with "tricks and traps" and called for a national safety standard.

Warren, who has written studies and books on Americans and debt, argued that consumers couldn't tell a safe card from a dangerous one.

"No one has to be an engineer to buy a toaster…or a crash expert to buy a car," she said. "It's time for safety requirements for credit cards as well." ■

Congress spotlights unfairness of repeat nature of over limit fees

Over limit fees can be assessed every month until your balance is brought under limit. The unfair nature of over limit fees was examined at a hearing of the Senate Homeland Security and Governmental Affairs' investigative subcommittee on March 7.

At the March 7 hearing, a consumer witness, Wesley Wannemacher of Lima, Ohio, recounted how he was hit with over limit fees 47 times on his Chase card when he went over his $3,000 limit by $200. His $3,200 balance skyrocketed to $10,700 with interest and penalty fees.

At the hearing, Chase CEO Richard Srednicki apologized publicly to Wannemacher. "In this case, we simply blew it," he said. Wannemacher used a new Chase card in 2001 and 2002 to pay for his wedding.

According to a chart shown at the Senate hearing, on $3,200 in purchases Wannemacher was charged $4,900 in interest, 47 over limit charges totaling $1,500 and late fees of $1,100. On his February 2007 statement, the total charges were $10,700. Wannemacher paid off $6,300 of this balance.

Just days before the Senate hearing in March, Chase contacted him to say it would waive the remaining $4,400 balance. Wannemacher told lawmakers that he did not believe this was a coincidence.

In its current survey, Consumer Action found 79 cards (94%) with over limit fees. Over limit fees range from $20 (Amalgamated Bank of Chicago) to $39 (Capital One, Citi, Chase, Bank of America, Discover, GE Money Bank). The average over limit fee is $29.69.

Sixty cards have a flat over limit fee, ranging from $20 to $39. Nineteen cards have tiered fees tied to cardholder balances. The average over limit fee on the tiered rate cards is $25.72. ■

Hurricane-hit using credit to pay bills

Two years after Hurricanes Katrina and Rita ravaged thousands of homes, most Gulf area homeowners continue to wait for rebuilding dollars promised by government officials and private insurers. While they wait, homeowners still must find a way to make ends meet.

To learn how these homeowners are faring debt-wise, Consumer Action invited Gulf Area community-based organizations working directly with hurricane affected homeowners to participate in a survey.

Eighteen community groups, representing thousands of homeowners from Alabama, Louisiana and Mississippi responded with information about how homeowners are coping with their debts.

About two thirds of the respondents said homeowners are using credit cards as one method of paying monthly bills. Just over half (55%) say that Gulf homeowners are making at least the minimum payment on their credit cards each month. About 38% "sometimes" make the minimum payment.

According to the providers, the majority of homeowners who can't afford to pay the monthly minimum are ignoring their debts. Others are filing for bankruptcy. Some are borrowing from friends and relatives, and some are turning to costly payday loans.

Nearly three quarters (72%) of those surveyed say homeowners are still waiting for federal funds. Sixty-one percent of homeowners say they've had no state assistance for rebuilding, and two-thirds have had no help from private insurance.

For a list of free resources designed to help hurricane affected homeowners prevent foreclosure, go to our web site (www.consumer-action.org) and enter "Disaster Relief Resources" in the search field.

— Ruth Susswein

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