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2009 Credit Card Survey Issue

Credit card rates rising

Issuers see window of opportunity to make changes before the new law

By Ruth Susswein

If you've opened a credit card statement in recent months, you may have noticed a jolt in your interest rate or a spike in fees. Maybe your minimum payment has shot up a few percentage points, making your monthly bill much harder to meet.

These changes don't apply only to those with imperfect payment histories. Often they apply to even the best of customers. Currently, card issuers don't need a reason to raise your rate.

"Our Capital One rate went from 5.9% to 15.9% and the Chase card rose similarly by 10 [points]," a Gainsville, FL couple told Consumer Action. "We're puzzled by the behavior of banks ... that have opted to penalize customers who pay on time, pay down their balances, and have a great credit rating."

Consumer Action's 2009 Credit Card Survey finds that lenders have boosted rates, compared to last year, on purchases, cash advances, and, in some cases, on default APRs. The most recent increases were made between March and June of this year, after President Obama signed a new law that would restrict some of the card issuers' most anti-consumer practices. For now, card issuers have a window of opportunity to make changes before the law takes effect next February. (A few provisions go into effect this summer.)

Recent rate hikes

Bank of America (BofA) has added 3.25% to its minimum APR for purchases (6.99% jumped to 10.24%) and 4.25% to its cash advance rate (and raised fees) on its Platinum Plus Visa card. BofA has also raised the cash advance rate and tacked three points on its Platinum Plus Cash Rewards' purchase APR, and its Accelerated Rewards American Express card.

Capital One tacked two points on the cash advance rate for its No Hassle Miles and Standard Platinum cards.

Also between March and June, Citibank has increased purchase APRs on three cards we surveyed by up to three-and-a-quarter percentage points.

US Bank raised its purchase APR by two percentage points (rates range from 9.99%-22.99%) on its Visa Platinum and Travel Rewards Visa Platinum cards. The cash advance rate also jumped two points to 22.99%.

Wells Fargo boosted its cash advance rate by a little less than two points (1.84%) and bumped its purchase APR up one percentage point on the Cash Back and Platinum cards.

Penalty rates

- Capital One has added an extra 6.25% to its penalty (default) rate, on the Standard Platinum and No Hassle Miles cards, bringing the new rate to 29.4%.
- For customers hit with a penalty APRs at US Bank, there is a one point increase to 28.99%

See "Rates rising," page 8

Survey at a glance

Issuers: 22 **Cards:** 39
Average APR: 12.83%
Low: 4.25% (First Command Bank *Platinum Visa*)
High: 22.99% (high rate* on US Bank's *FlexPerks Select Rewards Visa Card*)

Variable Cards: 34
Average Variable APR: 13.20%
Low: 4.25% (First Command Bank *Platinum Visa*)
High: 22.99% (high rate* on US Bank's *FlexPerks Select Rewards Visa Card*)

Fixed Rate Cards: 5
Average Fixed APR: 10.03%
Low: 6.50% (Pulaski Bank and Trust *Visa Classic*)
High: 16.00% (high rate* on Golden 1 Federal Credit Union *Visa Platinum Rewards*)

**Rate is dependent on credit rating.*

Fees go up, up, up—and some have no limits

By Ruth Susswein

Savvy cardholders know that just because a credit card issuer offers a 0% balance transfer deal, it doesn't mean that the transfer is free. Balance transfer offers usually come with a fee—typically 3%. That's $30 on every thousand dollars you transfer. Cash advances also usually carry a 3% fee, in addition to a pricey interest rate that starts accruing immediately on the money you were advanced.

In its 2009 Credit Card Survey, Consumer Action found cash advance fees as high as 5% (Iberia Bank Classic Visa).

While reviewing and analyzing the data we collected between March 4 and May 20, we found that some of the surveyed institutions had made increases in the interim.

Bank of America's Platinum Plus Visa card now has a 5% cash advance fee (4% for direct deposit and convenience check cash advances). That fee shot up from 3% in March. The BofA Cash Rewards Platinum Plus Mastercard and the Accelerated Rewards American Express card also carry the same 5% fee, up from 3% in our findings three months earlier. Iberia bank charges a 5% fee (with a $100 cap, or "maximum"). US Bank Flexperks (replacing Worldperks) raised its fee from 3% to 4%. Other US Bank cards surveyed also charge a 4% cash advance fee.

Last year the fee ranged from 2% to 5%, with Iberia Bank being the only card surveyed to charge 5%.

This year six cards surveyed carried no cash advance fees, down from 2008 when eight cards carried no fees. The cards with no fee this year are

See "Fees," page 4

2009 Credit Card Survey collects facts on rates, fees

Consumer Action examined 39 cards from 22 financial institutions this year, including the top nine U.S. credit card issuers, six low-rate issuers and six large credit unions.

The Prime Rate, upon which many variable interest rate cards are dependent, was 3.25% during the survey. We surveyed the same cards and issuers last year, with the exception of WaMu (now part of Chase) and Amalgamated Bank of Chicago.

Interest rates ranged from 4.25% variable (Platinum Visa, First Command Bank) to 22.99% variable (high rate on US Bank). A "high rate" is the highest rate charged on the card and is dependent on the applicant's credit history. The average purchase rate of 12.83% was about three-quarters of a percentage point lower than our 2008 average of 13.54%.

The 34 variable rate cards we surveyed averaged 13.20%, about a percentage point lower than the 2008 average of 14.25%—notable because the Prime Rate is 2 percentage points lower than last year.

It appears that some issuers switched their fixed rate cards to variable rates this year. *(See the story on changing terms on page 2.)*

The five fixed rate cards surveyed this year averaged 10.03%, about two percentage points lower than our 2008 fixed rate average of 11.82%. The range on fixed rate cards is 7.25% (Simmons First Visa Platinum card) to 16% (high rate on Golden1 Federal Credit Union's Visa Platinum Rewards card).

Annual fees

In 2009, 31 cards, or 79.4% of surveyed cards, had no annual fees. (In 2008, 85% [35 cards] of surveyed cards had no annual fees.) Among the cards with annual fees, fees range

See "About the survey," page 5

About this newsletter

Consumer Action News is a quarterly publication of Consumer Action. You can email the editor at: editor@consumer-action.org.

Contributors to this issue include Michelle de Mooy, Linda Sherry, Monica Steinisch and Ruth Susswein.

Credit card terms a changin' in advance of new law

By Ruth Susswein

From shrinking grace periods to soaring minimum payments, card issuers are making widespread changes to cardholder agreements that are not in the cardholder's best interest.

Consumer Action's Credit Card Survey reveals that Discover Miles and Open Road cards come with a boost in the minimum payment if "more than 90% of your balance consists of a special rate balance transfer." Your minimum payment could double, from 2% to 4%.

If you open one of these cards and transfer a $1,000 balance, Discover's usual 2% minimum payment of $20 could rise to $40 a month, even though you make no new charges. (Interest charges get added on top of this 4% minimum payment, when the 0% introductory offer expires.)

Chase has told some customers that minimum payments will increase from 2% to 5%.

Consumer Action was told that Chase made this change only for some cardholders who have been making the minimum payment for a long time because the company wants to see these customers pay off their debt.

But the 2% to 5% hike more than doubles a cardholder's monthly minimum payment. A Chase cardholder from Tampa, Florida, writes that he and his wife will find the new payment unaffordable. (Cardholders who do not make at least the minimum payment due each month are considered to have paid late, even if they send in a payment of less than the minimum. This puts them at risk for a higher interest rate.)

"My wife and I have had a Chase credit card since 1990. We have used it occasionally for large purchases when special promotional interests rates were available. Never have we been late on a payment and always make payments at more than the minimum. This [change] will increase my payment from $250 to over $600 a month! We have excellent credit but a $350 increase a month could put us in serious trouble."

Chase cardholders who find the spike in minimums too much to handle should call the customer service number on the back of their cards and ask for the "Proactive Solutions" department.

Shrinking grace periods

One card issuer in this year's survey has nearly eliminated its grace period. Everbank now offers a six-day grace period. Last year, the company had a 25 day grace period.

Pundits are speculating that issuers will do away with the grace period because of the restrictions on interest earnings in the new credit card bill. A grace period allows cardholders who pay their monthly bills in full and do not carry a balance to avoid paying interest. Consumer Action has been noting a move toward shorter grace periods of 20 days.

Last year, more than half of cards surveyed (21) offered a 25-day grace period and six more offered a range of 20-25 days. For 2009, about 48% of surveyed cards (18) still offered a 25 day grace period while just three others gave a range of 20 to 25 days per card.

This year, another 38% of cards had a 20 day grace period. That compares to 32% in '08. Among surveyed cards, only American Express Clear offered a grace period of 28-31 days.

Bank of America is switching many customers from fixed to variable APRs. Since our 2008 Credit Card Survey, each surveyed card from BofA has switched from a fixed rate offer to variable. Consumer Action has heard from cardholders who have had a low fixed rate for more than a decade and are not pleased with the shift.

While in most cases, interest rates will remain the same for now, variable rate cards are tied to indexes such as the Prime Rate and will rise in lock-step with the index.

Currently the Prime Rate is at its lowest point in years, and it is just a matter of time until it will rise again. When the rate rises, so does the amount you owe each month if you are carrying a balance.

"We have seen them change from fixed to variable at times in the past when Prime is low," said Linda Sherry, Consumer Action's director of national priorities. "Some cardholders seek the predictability of fixed rates, but this year's survey shows they are quickly disappearing from the marketplace.

No longer fixed

More than half of the surveyed cards (54%) that carried a fixed interest rate in 2008 now offer a rate that varies. Thirteen cards had fixed rates in 2008. Three of the 13 fixed rates are now variable rate cards; four more have introductory fixed rates that expire and shift to variable. (One card's issuer is no longer in business). That leaves only five surveyed cards in '09 that carry fixed rates. (Golden1, Navy FCU, Pentagon Federal, Pulaski, and Simmons).

Sherry noted, "The shift to variable rates places greater risk on consumers. We'll be watching to be sure card issuers make only allowable changes once this new credit card law is in place." She invited cardholders to share their experiences with her by e-mail, at editor@consumer-action.org.

"When people tell us about their experiences, it gives us real data we can use in arguing for consumer protections." ■

Check it before you wreck it: Determine your credit level

By Michelle de Mooy

Figuring out how good your credit is feels like looking into a dressing room mirror: seeing yourself in harsh and unflattering fluorescent lights may not be easy but at the end of the day, the mirror probably doesn't lie.

Taking a look at your financial picture isn't always fun either, but it can guide you toward better decision-making, and may save your credit score from damage. If you apply for a credit card you aren't qualified for, it can ding your credit.

During the country's economic recovery, many expect that new credit will be more difficult to obtain for people with damaged credit. To ensure that you will have access to credit when you need it, improve your credit by paying your bills on time and only carrying balances on your accounts when necessary.

Before you apply for a new card, look realistically at your credit history. Make a list of money coming in and out each month to judge how much new credit you can comfortably afford.

Make categories for outstanding balances (credit cards, retail cards) and loans (mortgage, car loan, student loan), as well as collections or defaults, if any.

If you've missed or been late on any payments in the past two years, it will negatively affect your credit. Consult the chart at lower left to get some idea of your current credit standing.

One issuer, Capital One, offers potential customers a way to determine the cards for which they are best suited before they apply. These "self-select" offers are organized by general credit categories, such as excellent, good, average, bad, or no credit, and allow you to browse cards you're likely to be eligible for.

A credit level chart lets you grade yourself to avoid applying for a card you won't qualify for, which can hurt your credit score.

Remember, you'll need good to excellent credit to get a low-rate card.

You can also check your score at www.annualcreditreport.com before you apply. ■

What's your credit level?

Excellent/good	Good/average	Bad/no credit
Little to no debt, or your debt is relatively small compared to your income. No late or missed payments on your credit report.	Debt is somewhat high compared to your income. One to several late payments but no failures to pay.	High debt, little to no income, defaults on payments, past or present bankruptcy. No history of credit being taken out or used.

Brighter times ahead for credit cardholders

By Ruth Susswein

When the Credit Card Accountability, Responsibility and Disclosure (CARD) Act, federal legislation passed this spring to protect cardholders, takes effect on Feb. 22, 2010, card issuers will no longer be able to use some of the anti-consumer tactics they have employed in the past. *(A few provisions of the law take effect this month.)*

Here are the issuers in Consumer Action's survey who use practices banned by the new law.

'Anytime, any reason'

Card issuers frequently include language in their cardholder agreements that allow them to change rates and terms at anytime, for any reason. Currently, some changes in rates and terms require 15 days notice.

Surveyed issuers that state they use this practice: Amalgamated, American Express Blue Cash, Bank of America, Capital One, Chase, Citi, Discover, Everbank, First Command, HSBC, Iberia, Pentagon FCU. (*Citi allows for rate changes in some circumstances. See page 5 for details.)*

Under new law: No rate increase will be imposed on existing balances but rates can rise on future balances following 45 days notice to the cardholder.

Exceptions: If the cardholder does not make required minimum payments for 60 or more days, a teaser rate expires, or the index tied to a variable rate card changes.

Additionally, interest rates cannot rise for the first year after an account is open, except as specifically stated at account opening. An example would be the expiration of an introductory rate after six months.

Universal default

Some issuers use your credit score or your payment record with other creditors—not just your performance on the card—as a reason to increase interest rates. When the rate increases, the higher rate applies to your existing balance. Currently, no notice of such change is required.

Consumer Action defines universal default as a rate increase made to a cardholder's account because of his or her record with another creditor. We found language in the disclosures of two banks that indicate they would raise cardholder's rates because of negative credit history with an unrelated creditor. *(See story on page 7.)*

Under new law: No rate increase will be permitted for the first year that an account is open. Additionally, no rate increase is allowed on existing balances because of a problem with another, unrelated creditor, but issuers may still increase the rate on future purchases with 45 days advance notice.

Penalty/default rates

Issuers will increase your interest rate if you are late making a payment.

All surveyed issuers, except First Command, impose a penalty rate ranging from 12.75% (Amalgamated) to 31.99% (HSBC).

Under new law: Issuers still can impose any rate they choose but will have to provide 45 days notice, and will have to "terminate the rate increase" in six months, if subsequent payments are on time.

Penalty Fees

Issuers charge fees, both flat fees and tiered fees tied to the cardholder's balance, for late payments and for exceeding the credit limit.

Surveyed issuers using this practice: All but American Express Clear card and First Command Bank Platinum card charge late fees. Late fees on surveyed cards ranged from $15 to $39. Over limit fees ranged from from $10 (Golden1) to $39 (Addison Ave. FCU, Chase, Citi and US Bank). AmEx Clear, First Command Bank and Capital One No Hassle Miles cards have no over limit fees.

Under new law: Penalty fees must be "reasonable and proportional to the omission or violation." The Federal Reserve will issue rules interpreting the mandate. Over limit fees will be prohibited unless you choose to allow the issuer to approve transactions that exceed your credit limit.

Payment allocation

Issuers apply your full payment to your lowest rate balance until it is paid off, regardless of any higher interest rate debt you carry on the card.

Surveyed issuers using this practice: We did not specifically ask this question, however this provision is very common on cards which have different rates on different types of balances on the same card, such as purchase rates, cash advance rates and introductory promotional rates. Some issuers disclose in fine print that payments will be applied to the lowest rate balance first.

Examples: "We apply your payment to the low APR balances first. You cannot pay off higher APR balances until you pay off lower APR balances." (Citibank AT&T Platinum Universal card)

"If your account has balances with different APRs, payments are applied to the balance with the lowest APR before any payments are applied to balances with higher APRs. This means that balances with higher APRs are not reduced until balances with lower APRs have been paid off." (Bank of America's Accelerated Cash Rewards AmEx card)

Capital One, Chase, Discover, and Wells Fargo also apply payments to the lowest rate balance first.

First Command is the only card surveyed that states it will apply your payment in a consumer friendly manner—without being required to. It applies your payment to cash advance charges before purchases.

Under new law: After meeting the minimum payment, the rest of your payment will be applied to your highest rate balance first, saving you money in the long run as you pay off your balance.

Payment cut off times

It is very common among issuers to require payments to be received by a certain time on the due date that is earlier than the end of the day (midnight).

See the chart with this story *(below)* for times that payments must arrive or cardholders will be hit with a late fee—and in some cases a higher penalty interest rate.

Under the new law: Payment must be considered on time if received by 5 p.m. on the due date. (Lenders may decide if Central, Eastern or Pacific time zones apply.)

Fixed rates

Depending on the card and the issuer, credit cards may be "fixed rate," which means they don't change unless you are notified of a change, and "variable rates," which vary with a designated index such as the Prime Rate.

Issuers: Bank of America and Chase are switching cardholders from fixed to variable interest rates. While for now the rate remains the same, the interest rate is tied the Prime Rate, which is at a historic low. So these cardholders will see their rates rise when prevailing interest rates rise as the economy improves.

Under new law: Upon account opening issuers must disclose how long the rate is fixed and honor the fixed rate on existing balances. The Federal Reserve will decide whether future balances may be switched to a variable rate with 45 days notice. ■

Lowest rate credit cards

Variable Rates

APR	Annual fee	Bank (card name), website
4.25%	None	First Command Bank (Platinum Visa) www.firstcommandbank.com
5.74%[1, 2]	None	Addison Avenue Credit Union (Visa Cash Back Platinum), www.addisonavenue.com
6.25%[1]	None	Iberia Bank (Visa Classic) www.creditcards.iberiabank.com
6.99%[1]	None	Bank of America (Platinum Plus Visa) www.bankofamerica.com
7.24%[1]	None	American Airlines Federal Credit Union[2] (Visa Platinum Rewards), www.aacreditunion.org and Citi (AT&T Universal Savings Platinum), www.citicards.com

Fixed Rates

APR	Annual fee	Bank (card name), website
6.50%	$35	Pulaski Bank and Trust (Visa Classic) www.pulaskibank.com
7.25%	None	Simmons First Bank (Visa Platinum) www.simmonsfirst.com/creditcards
9.40%[2]	None	Navy Federal Credit Union (goRewards) www.navyfcu.org
9.99%[1, 2]	None	Golden1 Federal Credit Union (Visa Platinum Reward), www.golden1.com
13.99%[2]	$18	Pentagon Federal Credit Union (Visa Platinum Reward, www.penfed.org

1. Lowest rate in a range based on applicant's credit history. Generally, only applicants with excellent credit qualify for this rate.
2. Requires membership in the credit union. Not everyone is eligible.

Due date cut off times

Addison Avenue Credit Union	Midnight ET
Amalgamated Bank of Chicago	4 p.m.
American Airlines FCU	Midnight
American Express	Midnight
Bank of America	5 p.m. ET
Capital One	3 p.m. ET
Chase	4 p.m. ET
Citi	5 p.m. ET
Digital Federal Credit Union	5 p.m. ET
Discover	5 p.m. ET
Golden 1 FCU	2:30 p.m. ET
Navy Federal Credit Union	5 p.m. ET
Pulaski Bank and Trust	2:30 p.m ET
Town North Bank	5 p.m. ET
US Bank	6 p.m. CT
Wells Fargo	Midnight

Source: *Consumer Action Credit Card 2009 Survey*

New credit card law

Many anti-consumer practices are banned

By Monica Steinisch

After years of enduring an unequal relationship in which credit card companies call the shots, cardholders are about to gain some serious clout. New legislation, dubbed the "Credit Cardholders' Bill of Rights" by supporters, will curtail many practices card companies have long relied on to boost profits and keep consumers in debt.

The Credit Card Accountability, Responsibility and Disclosure (CARD) Act, signed into law by President Obama on May 22, 2009, duplicates many of the reforms the Federal Reserve Board adopted in late 2008. But it goes further by broadening some consumer protections and establishing others.

The new law limits how long a penalty rate increase can last, gives consumers a way to avoid over limit fees, requires penalty fees to be "reasonable," and eliminates most fees for paying your bill by automated phone service or Internet. Most of the provisions in the new law take effect on Feb. 22, 2010.

Consumer Action's 2009 Credit Card Survey shows that all the top card issuers engage in one or more practices that would be banned under the new law. *(See related story on page 3.)* To comply with the new law issuers will have to make major changes in the way they do business. What changes can you expect to see in the coming months? Key reforms include:

- **Restrictions on rate increases.** Card issuers will not be able to raise a card's interest rate in the first year a card is opened, except if there is a change in the "index" (such as the Prime Rate), or a promotional rate has ended, or because the minimum payment was more than 60 days late.
- **Rate restrictions on an existing balance.** Interest rates cannot be increased on a balance except for the reasons stated previously. While you will pay off the current balance at the old rate, issuers can apply an increased rate to future purchases. Any rate increase requires 45 days written notice (effective Aug. 20, 2009).
- **Limits on penalty rates.** If a penalty interest rate is applied to your account (after being more than 60 days late) the card company must "terminate the rate increase" if you make on-time payments for six months.
- **Limits on universal default.** If your interest rate rises, based on your payment history on an unrelated account or other reasons unrelated to how you handle the card, the new rate cannot apply to your old balance.
- **Limits on fees.** Over limit fees are banned unless you choose to allow your account to exceed your credit limit. Over limit fees are limited to one per billing cycle, if the balance is above the limit on the last day of the cycle. Fees to make a payment are banned unless it is expedited (within 24 hours) through a customer representative.
- **Reasonable fees.** Over limit and late fees must be "reasonable and proportional to the omission or violation." The Federal Reserve will define "reasonable."
- **Reasonable payment requirements.** Bills must be mailed (or delivered) at least 21 days before due, and the due date will be the same day each month. Payment received by 5 p.m. on that day will be considered on time.
- **Limit on changing terms (opt out).** If a card issuer raises future interest rates, consumers will be entitled to pay off balances under the original terms of the contract, but issuers may require cardholders to pay off the balance in five years or to pay a higher minimum payment (up to twice the original amount).
- **Two-cycle billing ban.** Card issuers cannot go back an extra billing cycle to charge you interest.
- **Fair application of payments.** Any amount you pay over the minimum payment must be applied to higher interest balances first.
- **Limits on subprime card fees.** Issuers will be restricted from charging fees to your credit line if those charges exceed 25% of your credit limit.

Added protections

The new rules also include some provisions that will provide other important protections for millions of consumers. For example, disclosures now must spell out the cost of making only minimum payments, and they must inform cardholders how much they need to pay each month to eliminate their balance in 36 months.

Issuers are also required to get a college-age person's permission before sending credit card offers. Proof of a way to repay credit card debt, or a co-signer, are now needed before credit may be issued to anyone under 21.

A few of the bill's provisions will take effect early. As of Aug. 20, 2009, card issuers must:

- Give 45 days notice of most rate increases,
- Give consumers the right to cancel the card and repay at the old terms
- Mail bills 21 days before the due date.

Some traps remain

While the Credit CARD Act does much to level the playing field for card users, consumer advocates say it falls short in some areas. Card issuers still can impose exorbitant penalty rates that currently reach as high as 31.99%, according to Consumer Action's 2009 Credit Card Survey. Issuers also retain the right to dramatically and abruptly reduce a cardholder's credit limit, sometimes to the level of the current balance, however cardholders must be given 45 days advance notice.

To avoid the consequences of these and other anti-consumer practices, cardholders should stay vigilant and manage their credit and debt wisely.

- DO know your new rights and when they go into effect.
- DO read all bill inserts and other correspondence from creditors, looking for any notice of changes in terms. If you notice a change in interest rate, credit limit or other key terms, contact the creditor right away to find out why.
- DO make it a goal to reduce and retire revolving debt.
- DO continue to avoid penalty rates and fees. Even under the new law rates and fees are still expensive.
- DO keep balances to 30% or less of your credit limit, pay on time, and whenever possible pay more than the minimum due so you don't appear to the card issuer to be a risk.
- DO consider obtaining an additional card or two if you currently have just one, in case your card limit is drastically reduced or your account closed. Use the cards from time to time, because issuers are closing inactive cards. (DO pay off the balances on these cards each month.) ■

For updates see our online Alerts (www.consumer-action.org/alerts).

Fees

Continued from page 1

American Express Clear Card, Addison Avenue Credit Union, Navy Federal Credit Union, Pentagon Federal Credit Union, First Command, and Pulaski Bank & Trust.

Minimums and maximums

Consumer Action found that 70% of cards surveyed set no limit on the amount they would charge a customer for a cash advance.

At the same time, more issuers are charging higher minimum fees this year. Card companies are hitting cardholders with at least a $2 to $15 minimum fee to take out a cash advance.

About 40% of cards surveyed this year have a $10 minimum cash advance fee, while only one third of cards carried a $10 minimum in 2008.

Whether you take a cash advance for $100 or as much as $300, 16 cards surveyed will charge you a minimum of $10 to borrow that money. Last year, more cards charged a $5 minimum rather than $10.

Balance transfer fees

Signs of balance transfer fees on the rise can be found at Bank of America where the Platinum Plus Cash Rewards Mastercard and the Platinum Plus Visa jumped from 3% to 4% from March to June. BofA does offer an introductory balance transfer fee of 3%. The Discover More card's balance transfer fee is also 4%, up from 3% in our March findings. Chase is raising its highest balance transfer fees to 5% in August. Pentagon Federal Credit Union hiked its balance transfer fee to 2.5% from last year's 1%.

Some issuers impose a foreign transaction fee even when you never leave the comfort of your home.

No transfer fee

This year, we found 11 cards with no balance transfer fees from Addison Avenue Credit Union, American Airlines FCU, American Express, Capital One, First Command Bank, Iberia, Navy Federal Credit Union, Pulaski Bank and Trust and Simmons First National Bank.

That's up from five cards with no balance transfer fee last year.

This year, 24 cards carried a 3% fee to transfer a balance compared to 11 cards charging 3% in 2008.

"If you've been able to maintain an excellent credit record you may be able to avoid a balance transfer fee on a new card," says Linda Sherry, Consumer Action's director of national priorities.

This year's survey reveals two cards that offer a balance transfer with no fee and a 0% interest rate for the first six months (and a low rate to follow). They are Iberia Bank's Visa Classic Card and Pulaski Bank and Trust's Classic Card. First Command, Navy Federal Credit Union and Simmons First each offer a low-rate card with no balance transfer fee.

Of the seven issuers in this year's survey that cap their balance transfer fees, most max out around $100. However, 21 cards don't have a cap.

TIP: Some of the same card issuers may offer different fees on different cards, as well as personalized offers you receive in the mail. With fees as high as 5%, it pays to find a teaser rate offer without a fee.

Foreign transaction fees

Consumers who use their credit cards in another country may be surprised to see a fee of 1%-3% of the purchase amount tacked on to their bill. This is called a "foreign transaction" or "currency conversion" fee for purchases made in foreign currency.

In this year's survey, all but two cards (Capital One and First Command) carried this fee. The fees include a 1% charge that Visa or Mastercard add to convert purchases made in a foreign currency. American Express charges a 2.7% fee, although it is figured a bit differently. The company increases the conversion rate by 2.7% and uses the marked-up rate to convert the charge to U.S. dollars.

Armchair travel fees

Some issuers impose a foreign transaction fee even when you never leave the comfort of your home. If you shop online you may find this fee attached to your next order if the item was purchased from another country.

When asked, "Do you charge this fee if I purchase items online or by phone from a business in a foreign country?" representatives from 12 surveyed cards said yes. They are Amalgamated Bank of Chicago, Bank of America, Chase, Citi, Discover, Everbank, Pentagon FCU, Pulaski Bank and Trust, Simmons First, Town North, US Bank, Wells Fargo. Six

See "Fees," page 5

Rules for opting out of costly changes vary by issuer

By Linda Sherry

Some credit card issuers give you the right to decline a change in contract terms. This is often called an "opt out." But each company's opt out is different and under most circumstances, the deal is only on the table for a short time. You must act quickly to accept the opt out.

This year, Chase, Citi, Bank of America and Capital One have notified cardholders of changes in terms. Many cardholders—but not all—have been offered an opt out of some kind. For instance, Chase cardholders whose minimum payments were raised from 2% to 5% were not offered an opt out, but some whose cash advance and default interest rates were raised were offered the ability to reject the change (opt out), close the card and pay off at the old terms.

To make sure you don't miss an opportunity to opt out of a higher rate, read everything your credit card company sends. Your right to opt out (if any) may arrive on the billing statement, in a bill stuffer or in a separate letter.

Until this month, there has been no requirement that your issuer notify you about a rate increase that results from a default or delinquency on your part. As of Aug. 20, you must receive 45 days notice of many changes in terms, including default rate increases.

New law

Under the new credit card law, (as of Feb. 22) issuers will not be able to change the terms on an existing balance, with few exceptions including when consumers are 60 or more days late in paying. If the terms on an outstanding balance are changed, or if the account is closed or cancelled, creditors must at minimum protect consumers by:

- Structuring the balance to be paid over at least five years, *or*
- Requiring a minimum monthly payment that is no more than twice the percentage used in the old minimum balance.

Current opt out provisions

Currently, it is up to the issuer whether to allow an opt out, and how that opt out is structured. In some cases, when a consumer opts out of a rate increase, the account is closed. However, on some rate increases that have nothing to do with consumer behavior, Citi and Bank of America don't automatically close the card.

Consumer Action has learned new details about the way Citi and Bank of America handle your account when you accept an opt out.

On solicitations examined by Consumer Action, Citi states:

"***When can we change the rates, fees and terms of your card agreement?***

"*We will not voluntarily increase your rates, fees or change other terms of your card agreement until your card expires, typically in two years. At that time we will review your credit history and general market conditions. If we decide to make changes after our review you will receive advance notice and a right to opt out. If you opt out we will close your account. You can then pay the remaining balance under the old rates, fees and terms. (This does not apply to default APRs and prime rate changes.)*"

But the details are less transparent and consumers who are affected by a rate increase may find that they are mailed opt out agreements that are somewhat different.

Citi says its keep-the-card opt out provision applies to changes based on "market" or "economic" reasons, but not on cards that are re-priced for risk-based reasons.

Keep the card

If your Citi card terms change for "market" or "economic" reasons and you follow procedures to reject the changes you will keep the card, the account will remain open and no changes will occur until the expiration date. When your card expires your account will be closed.

If you would like the card to remain open, you can contact Citi to inquire about your options. If you have handled the account responsibly, Citi says it is likely that you will be able to keep your card or reapply, but the terms will most certainly differ.

Lose your card

If your credit card is re-priced because you are part of a universe of cardholders who seem risky to the company, you also may opt out of any price increases but you can no longer use the card. You must close the account and pay it off at the old rate.

What types of uses make large groups of cardholders seem risky to Citi? The criteria include customers who use the card frequently for cash advances, repeatedly pay only the minimum monthly payment, max out their cards, or get close to the credit limit.

No opt out

Citi, like other issuers, says that you will not be offered any opt out if you have made late payments, bounced a check, or gone over your credit limit—behaviors that earn you a higher "default" rate. In that case Citi reserves the right to increase your interest rate as high as 29.99%, its current top default rate.

Bank of America

If a Bank of America customer opts out, the account is not closed. According to BofA, the account remains open and the old terms in effect as long as you don't use the card.

This offer may be attractive to cardholders with a lot of discipline—but those who are more subject to temptation may use the card and thereby subject themselves to the higher rate. For many people this policy may be a "gotcha."

Capital One

Capital One, which reserves the right to increase "your APRs if market conditions change," promises you the opportunity to opt out and pay at the old rate. The card will be closed.

Like other banks, Capital One does not offer the opt out on increases triggered by late payments (two within 12 months). But it does make an offer unlike other banks: "If we increase your APRs for late payments, we will return you to your prior non-introductory APRs if you make at least the minimum payment on time for 12 consecutive billing periods."

As of next February, the new credit card law will require that anyone who receives a higher interest rate on an existing balance (because they have paid 60 or more days late) must be given notice for the reason for the interest rate increase and informed that the higher rate will be "terminated" in six months if all minimum payments are made on time in the interim. ■

Fees

Continued from page 4

other bank reps told us they did not know, or we were otherwise unable to obtain an answer.

"In a global economy where we buy everyday items on the Internet, shoppers using credit cards, and often debit cards, too, can be in for a costly surprise," says Sherry.

Annual fees

There's been a lot of talk about annual fees making a major comeback following the passage of new credit card rules that will protect consumers but cut into company profits. Some cards, particularly rich rewards cards, have always had annual fees. This year only eight surveyed cards had an annual fee, ranging from $19 (Navy FCU goRewards) to $150 (American Express Delta Skymiles). However, Chase added a $30 annual fee to its Freedom card in August.

If you opt for a rewards card with a hefty annual fee make sure that you can earn more than you pay. With the Delta Skymiles card, you'll pay $150 a year, and will need to rack up $10,000 on the card to earn a mere $100 discount on a Delta flight. Unless you're a big spender you may not even cover your costs before it's time to fork over another $150!

Nuisance fees

Be on the look out for those annoying yet less obvious fees that are deeply buried in the fine print. For instance, we found that US Bank is charging a $2.50 "account management fee" if you close your account while you still have a balance.

As interest income wanes, be prepared for issuers to tack on fees or hike rates in new ways. Keep a keen eye on what the fine print says before you make a credit card transaction, or it might cost you. ■

About the survey

Continued from page 1

from $18 (Navy FCU goRewards) to $150 (American Express Delta Skymiles), with an average annual fee of $62.75. (In 2008, the average annual fee was $43.50.)

Other findings

- Of the 39 cards surveyed, 30 (77%) offered rewards, rebates etc. This is an increase over last year when 68% (28 cards) offered rewards.
- Ninety-five percent of all surveyed cards had late fees—the same finding as in 2008. Two cards had no late fees (American Express Clear and First Command Bank Platinum). The average late fee on the cards with a fee was $28.19—a 9% increase over 2008 average of $25.90. While the top late fee of $39 remained the same, many issuers used tiered fees tied to the cardholder's balance.
- Foreign transaction fees of 3% are charged on all purchases made in another currency by Amalgamated Bank of Chicago, Bank of America, Chase, Citi, HSBC, Town North Bank, US Bank and Wells Fargo. Four other issuers charged either 1% or 2% foreign transactions fees. Capital One and First Command Bank were the only surveyed credit cards that do not charge foreign currency transaction fees.
- Surprisingly, despite the credit crunch, 17 surveyed cards (43%) offered 0% introductory ("teaser") rates on new purchases. Most teasers lasted for six months, although American Express and Chase had offers of up to 12 months. On balance transfers, 20 cards (51%) had 0% intro rates. Some balance transfer offers lasted as long as 12 months (Chase, Citi, Discover, HSBC, US Bank and American Express), while Bank of America featured one offer for up to 15 months (Platinum Plus Cash Reward Mastercard).
- Binding mandatory arbitration was required by 11 of the 18 issuers we could get answers from. Discover allowed cardholders to decline the arbitration clause if they notified the bank within 30 days of receiving their cards. (As of July 23, Chase is re-evaluating its use of mandatory arbitration). Four of the seven issuers who said they did not require arbitration were credit unions (Addison Avenue Federal Credit Union (FCU), American Airlines FCU, Digital FCU and Navy FCU. (Others are Amalgamated Bank of Chicago, First Command and Town North Bank).

About the survey

The 2009 Credit Card Survey was conducted from March 4-May 20, 2009 by Sheree Jones and Kristen Ashby students at Virginia Tech (VT). Ruth Susswein of Consumer Action coordinated the surveying. Consumer Action gratefully acknowledges the assistance of the VT team, led by Professor Irene Leech, Associate Professor of Apparel, Housing, and Resource Management at VT.

Consumer Action has compiled a report containing details of all 2009 survey findings. The 2009 report can be found online at www.consumer-action.org. On the home page, click on *Survey Archives* on the black navigation bar at the top of the page. ■

The real deal

Beware of outdated credit card information online

By Michelle de Mooy

In today's economy, the one thing you can count on is change, especially the ever-changing rates and fees on credit cards. Knowing the most current "terms and conditions" for a credit card is an essential way to avoid fees and other unnecessary costs.

Consumer Action's 2009 Credit Card Survey has found that getting current, accurate information online about a credit card's rates and fees can be difficult. This year's survey found that many of the terms and conditions online may be outdated—in some cases, by as much as 2 years.

When you visit a issuer's website you expect that the information supplied by the company would be up-to-date. Consumer Action was surprised to learn that some surveyed cards bore information from 2008 and even 2007.

Buried in the fine print of the terms and conditions page at Pulaski Bank and Trust, this March, was the following paragraph in capital letters:

"The above disclosures are accurate at the date of printing (12/2007). Pulaski Bank has the power to change the annual percentage rate upon 15 days written notice to the cardholder…because rate and terms are subject to change you may contact us for current information by writing to P.O. Box..."

Golden1 Credit Union also seemed stuck in 2007. In March 2009, its online terms and conditions section read, "Information is accurate as of April 2007. It may have changed. To find out call 916-732-2900 or 877-GOLDEN." (By July 2009 the website had been updated with information accurate as of May 2009.)

"The information about the costs of the cards described in this application is accurate as of Oct. 31, 2008. To find out what may have changed write us at P.O. Box…" That's what Town North Bank's disclosure information read in June 2009.

Everbank's information is also from October 2008. The issuer encourages potential customers to call or write for an update. But when Consumer Action surveyors followed up with phone calls they were given the run around, and told they "would need to set up an account before any questions could be answered about credit cards." Iberia Bank's information was accurate as of September 2008.

Chase and First Command's info dated back to the winter of last year. Chase's Perfect Mastercard, Platinum Visa, and Freedom℠ all directed browsers to the same online terms and conditions assuring accuracy as of December 2008. For the latest information, consumers were instructed to write the bank at a P.O. Box.

"What is the likelihood that a cardholder is going to notice this warning in the fine print and then take the time to write to a lender and wait for a response before making a credit decision," asks Ruth Susswein, Consumer Action's deputy director of national priorities.

"These are clear examples as to why why just disclosing information to consumers is not sufficient," said Susswein. "A warning that information may be stale should not let an issuer off the hook. What's the downside to providing up-to-date rates, fees and terms?"

Online requirement

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

"We are hopeful that the Federal Reserve will clarify this matter to ensure that consumers can rely on the information they find online," said Susswein.

It's a struggle for cardholders to know where to turn for reliable, timely and accurate terms. You can call the card issuer but more often than not, you are stonewalled. For those card companies still willing to invest in hiring and training helpful customer service representatives, the latest rate and fee information may only be a call away, but unfortunately our credit card surveyors have learned that relying on answers from reps may leave you very unsatisfied. Frequently, Consumer Action surveyors had to make many extra calls to many issuers just to get confirmation of answers supplied by other reps. *(For more on our surveyors' impressions see page 7.)*

Recently, a New York consumer tried to work with his issuer's customer service department. He was very distraught about the experience and contacted Consumer Action.

This cardholder sent his monthly payment to the same address he had used for years. Unbeknownst to him, his issuing bank was sold to another institution.

Weeks later he received notice from his new bank informing him that it had not received his payment. He now owed late and other penalty fees in the amount of $135, and his interest rate had been super-sized to 29.99%.

It turned out that the bank had enrolled him, without his knowledge, in paperless billing and had changed the payment address. It was only after Consumer Action intervened on his behalf that the bank agreed to eliminate the fees and return his APR to its original rate.

"Of course, every consumer can't get this kind of help," said Susswein. "The days of the customer as king are long gone, and finding basic information that you can rely on to help you decide which card to apply for can be all too tricky." ■

First person

HSBC's 'custom fit' needs ample alterations

By Linda Sherry

For many years, Consumer Action has conducted its annual Credit Card Survey by calling customer service numbers at surveyed card companies. For the past several years, we have encountered roadblocks when we call customer service at HSBC. The company's policy has been that they will share information with you only after you reveal private information to them.

Representatives routinely tell our surveyors they will not release any card information, even basics like APR, grace period and default rates, until the caller provides highly personal information—including a Social Security number, date of birth and mother's maiden name, among other sensitive details.

Online, the company follows a similar protocol—little rate and fee information is available until you fill out an application providing sensitive personal information "required to prequalify for a credit card offer."

Its "Credit Card Selector" tool promises that the company will "provide a recommendation for a credit card that best fits your needs before you start the application process. Once you've reviewed our recommendation, you can then choose to apply for your custom fit credit card."

This year, I tried it. But in return for my highly sensitive personal details, I did not get a custom tailored offer. I received the same kind of disclosures that HSBC's large competitors (American Express, Bank of America, Chase and Citi) post freely on their web sites for all to view. It was not custom tailored in any way—in fact it did not even offer a specific APR, just a meaningless range of possible interest rates and not a word about a credit line. *This is my "custom fit credit card"?*

Custom offer?

On July 13, I filled out the HSBC pre-qualification application, after consenting to receive my "notice of credit decision or adverse action letter related to this application electronically," I was given a disclosure statement detailing my "custom offer." It was a typical credit card disclosure, the kind required by law under the Fair Credit and Charge Card Disclosure Act. It had the grid of required information we call the "Schumer Box" after the Act's author, Senator Charles Schumer, who was then a House member.

Here is how one of HSBC's competitors, Citi, describes the disclosure law on its site: *Under this Act, credit and charge card companies must provide you with information about their terms. … Card issuers are required to disclose their terms in writing at the time you apply. If a card company offers you a written "pre-approved" credit solicitation, the offer must include these written terms.*

And my offer? Far from being customized, it wasn't even firm. I was offered a card with a 12-month intro rate of 0%, which would convert to a "variable Customary APR of 8.99%, 11.99%, 14.99%, or 17.99%." The final rate will "depend on my credit worthiness." Isn't that why I filled out the pre-qualification application, revealing highly sensitive personal details as the price?

At this point, I was offered a choice, "Submit Application" or "Cancel." I cancelled.

No credit impact

The company states that declining the offer will have no impact on your credit history or credit score. "*Our pre-qualification is risk-free. If you do not like the credit card we offer you, click the 'No Thanks' button and no other creditors will see that you inquired with us."* Based on our research, this claim appears to be true.

On July 13, just before I filled out HSBC's pre qualification application, I pulled my Equifax credit score, which My Fico said was "great." I also pulled it on July 29, and it was exactly the same number, still "great." The score report noted only three inquiries, ones I had initiated in the past. The score report noted that certain inquiries "do not affect your FICO® score and are not listed here. One occurs when lenders search for consumers that might qualify for pre-approved credit."

So I pulled my free annual report from Experian, and found the HSBC inquiry of July 13 under "Inquiries Shared Only With You." "These inquiries do not affect your credit score."

All this left me scratching my head. In this day and age of identity theft, asking up front for highly sensitive personal identifying information before providing a disclosure required under the law is a deal killer. It's bound to turn off all but the most desperate card applicants. And to say that "pre qualification" will result in a custom fit offer, when all you get is the usual boilerplate, is misrepresentation of the most infuriating kind.

We asked HSBC why it did business this way. Last year, Cindy Savio, associate vice president for public affairs at HSBC, explained, "During the application process, consumers can review all the specific terms and conditions for the card they qualify for and then choose to accept (or decline) such terms before they agree to finalize their application."

Savio told us, "HSBC is committed to ensuring that information on card terms is clear and useful for the consumer to make an informed decision... Our ads on our card web sites meet the requirements of laws and regulations..."

In our opinion, the HSBC pre-qualification system completely disregards the spirit of credit card disclosure rules. The bank should be offering specific disclosures before application, not as a price of getting to the application. If the company wants to sell "custom fit" cards then it ought to deliver on its promise. ■

Customer disservice

Card issuers evade consumer questions about terms

By Michelle de Mooy

The front line in the financial industry's assault on consumers continues to be customer service, finds Consumer Action's 2009 Credit Card Survey.

Consumer Action's surveyors endured countless phone transfers and hang-ups and remained patient in the face of stonewalling by service reps and application specialists. They encountered widespread ignorance about even the most basic credit card questions. And sometimes our surveyors even faced aggressive and threatening behavior by customer service representatives.

Despite the roadblocks, one surveyor said she believed that customer service agents overall were more friendly and helpful this year.

Twenty-two credit card issuers are represented in this year's survey. A research team, comprised of Virginia Tech graduate student Sheree Jones (a former telemarketer) and undergraduate student Kristin Ashby, gathered online materials pertaining to each credit card. Then they called each issuer to gain clarification about information in the disclosures as well as to ask for details that are not usually provided in solicitation materials.

From early March through May of this year, surveyors spent hours upon hours calling card issuers, posing as consumers, with detailed questions about select credit cards from each company.

Concerned primarily with turning callers into customers, Bank of America's customer service representatives were (once again) considered "extremely pushy" by our surveyors, who were told that detailed information was only available to current customers.

Bank of America's repeated response to Ashby's carefully asked questions was often "it all depends on your performance" and "information will be included in your welcome packet upon being approved for the card." According to Ashby, she was told that almost all information not posted on BofA's website, such as the most current rates and fees, would be included in the welcome packet.

A Citi representative told the same surveyor that he "did not have access to [detailed] information" until an application is completed.

No phone applications

Chase had a big surprise for our researchers this year. Surveyors learned that the company is no longer taking applications via telephone and the company therefore "refused to answer questions over the phone."

Told by a customer service rep that answers to all her questions could be found online, Jones changed tack. "I told the representative that I did not have online access and he told me I would have to go inside a bank branch and complete an application. He said he did not have any information and there was no one he could transfer me to."

Jones was further frustrated when she tried to make follow-up calls and got a recorded message stating that the company was only accepting online applications. On the dates surveyors called there was no option to speak to a customer service representative. Jones had the same experience when she tried to gather information on Washington Mutual, now owned by Chase.

Chase's corporate offices told Consumer Action that in gearing up for the new credit card law, it has changed its application process to an online model. Bank representatives said they will continue to evaluate the model and "develop processes to meet customer needs."

Quite helpful

Standouts for attentive, helpful customer service included Simmons First, American Airlines Credit Union, and Wells Fargo.

Jones noted that though credit unions overall were responsive, some of them did not have informative websites or online applications. On several occasions, surveyors found it difficult to reach a representative at a credit union because of 9 a.m. to 5 p.m. hours of operation.

Consumer Action surveyors historically have found HSBC to be unable or unwilling to answer detailed questions. Often researchers were given the run around, transferred from department to department and ultimately told that no answers can be given withou an account number.

"Customer service agents said that it is necessary to get the card in order to receive information," recalled Jones.

After being transferred seven times in one call, an Everbank representative made the same demand.

Credit report required

In one instance, an HSBC rep insisted on pulling a credit report. The representative told Jones that she would not answer any questions unless she was authorized to pull Jones's credit report.

"She said she wouldn't pull my credit report if I agreed to give her some additional information," Jones said. "When I did, she told me they would be pulling the credit report [anyway]." The researcher spent much of the 15-minute phone call trying to get Jones' Social Security number (SSN) before releasing even the most basic credit card information.

HSBC uses a "pre-qualification" process for applicants that asks for personal information, (including SSN, date of birth, and mother's maiden name) with assurances that providing this private information will give you access to the actual rate you are eligible for, before you apply. HSBC calls it a "custom fit credit card."

But that's not what happened when Consumer Action's Linda Sherry gave the process a try. She details her experience in a story on page 6. ■

Universal default or not? That is the question

Universal default has become a red flag as an unfair credit card term that no card issuer wants to be associated with.

Consumer Action defines "universal default" policies as interest rate increases based solely on the way customers handle their other, unrelated credit accounts such as car loans, mortgages and separate credit accounts. Over the past few years, we have learned that issuers use different definitions of universal default, with many saying that while credit reports and credit scores are sometimes used as a reason to justify interest rate hikes, it is rarely, if ever, the "sole reason."

This year, we found statements from two surveyed banks, HSBC and US Bank, that say they use credit report information as a reason to raise your rate. When we tracked down executives to ask why their disclosures contain such provisions, both banks said they do not practice universal default. HSBC added that it doesn't use defaults with other creditors as a stand-alone reason to increase rates.

Consumer Action (along with many other consumer advocates) believes the practice of raising a cardholder's interest rate based on his or her payment history with another company is not fair.

The new credit card law does not outlaw universal default but will place some limits on credit report related rate hikes. It will ban them outright in the first year of the account, and will restrict any increases on an existing balance. Exceptions are when variable rate cards fluctuate based on changes to the index or when cardholders pay more than 60 days late.

US Bank's credit card policy states that your APR may increase "if you fail to make timely payments to another creditor as reflected in your credit report."

In our book, that means US Bank credit cards are subject to universal default. However, Teri Charest of US Bank media relations told Consumer Action, "We do not have, and have never had, universal default. Universal default is when an issuer automatically and without notice puts an account to its default pricing rate if the consumer defaults on an unrelated account."

At HSBC, solicitation disclosures note that "we have the right to change your APR, fees, and other terms anytime for any reason including … use of your credit line with us or any creditor, or our financial return." Again, it sounds like universal default to us—but not to the bank.

Cindy Savio, vice president of public affairs for HSBC-North America, denies that her employer practices universal default. "HSBC does not increase the rate on a customer's account solely because the customer has defaulted with another creditor," said Savio. "We may, however, re-price an account based on a change in the customer's overall risk profile."

This seems to be a distinction without a difference. We leave it up to you to decide if a lender that has this policy—whatever it's called—is worth doing business with.

Avoiding any kind of default with HSBC would be a wise move. For the second year running, the bank has the highest default rate (31.99%).

On a $9,000 balance, raising the interest rate from 15% APR to 32% APR would increase the initial minimum payment from $201 to $327, and more than double the amount of interest paid over time from $10,861 to $23,868, if only minimum payments were made and no new purchases were added to the card. (Minimum payments would get progressively lower as the balance is paid off.) ■ *—L.S./R.S*

New gift card rules keep on giving

Gift cards, the plastic cards offered by many stores and sold for general use by some credit card issuers, are very popular. The National Retail Federation found that more than half of people it surveyed last holiday season would like to receive a gift card.

But many consumers don't recognize drawbacks of the cards, such as expiration dates or added fees—especially if you don't use the cards right away.

In new credit card protections passed this year, Congress saw fit to include some consumer protections for gift card buyers and recipients.

The rules apply to retail cards and general gift cards (bearing Visa, Mastercard, American Express and Discover logos) but not to paper certificates, phone or rewards/loyalty cards.

After Feb. 22, 2010, gift cards are subject to these rules:

- **Expiration:** Cards can't expire in less than five years (from date purchased or last time money was added to the card).
- **Fees:** A monthly fee may be imposed only if the card is unused after 12 months.
- **Disclosure of costs:** Fee information will be on the card or packaging.

Many states already have gift card consumer protections in place. Consumers Union (www.consumersunion.org) has a fact sheet titled "State Gift Card Consumer Protection Laws" that details the state laws.

If you have old gift cards that were not used and were registered in your name, you may be able to get some of the money back through your state's unclaimed property agency.

The National Association of Unclaimed Property Administrators web site (www.missingmoney.com) has a search engine to help you discover if your name is on any state unclaimed money lists. ■

‘Settling’ the debt with your credit card company

By Monica Steinisch

Since last fall, some credit card companies have been showing greater flexibility when it comes to “settling” cardholder accounts, or accepting less than a cardholder’s outstanding balance as full payment. While many card companies have a history of making fee and interest concessions for troubled consumers, they rarely reduced the principal amount owed.

Why the change in policy? One reason is the bad economy. High unemployment means that many delinquent cardholders lack jobs, assets or home equity to pay their balances. As a result, card companies are focusing on collecting what they can right now, before the cardholder files for Chapter 7 bankruptcy.

Another factor is the passage in May of the Credit CARD Act. This consumer-friendly legislation removes card issuers’ ability to raise interest rates on existing balances. With this revenue source drying up, lingering debt becomes far less profitable. *(See page 3 to learn more about the new credit card law.)*

Is settling for less than you owe an option for you? It may be, but only if you’re behind in your payments. According to research conducted by Consumer Reports, some card companies are willing to consider settling for 50 cents on the dollar 90 days after the first missed payment, though others will wait longer, and some may not settle at all.

The settlement you’re able to arrange will depend on how delinquent you are and the policies of your card company. Keep in mind that a 50% settlement after six months of missed payments is not necessarily a better deal than, say, a 75% settlement after two months’ delinquency. During those additional four months of missed payments, your debt will grow with late fees, penalty finance charges, and, if you’ve exceeded your credit limit, over-the-limit fees.

Things to know

Opting to pay less than you owe may seem to be a no-brainer, but there are drawbacks to settling. Before you agree to a settlement, here are some things you should know:

You’ll need cash. The card company will expect you to make the payoff in one lump sum or over just a few months. If you have no personal assets to draw on, you’ll need to borrow the money from friends, family or another source. If you pull money from a retirement account prematurely, you’ll pay a 10% penalty and taxes on the withdrawal.

Your credit rating will suffer. A settlement only happens when your account is significantly past due, a status that wrecks your credit score and makes it difficult to get new credit or favorable terms. After you make the payoff, your credit report will reflect the settlement, which is better than a “charge-off” (typically defined as a debt the creditor has not been able to collect for six months). Information can stay on your credit report for seven years.

You may owe taxes. If the amount of the forgiven debt exceeds $600, the card company will report the full amount to the IRS. Unless you were insolvent (your debts exceeded your assets) before the creditor agreed to settle, you will be required to pay income taxes on the entire amount of the forgiven debt. Ask yourself if you’ll have the money to pay your tax bill when it becomes due.

You need to get it in writing. Whether you or the card issuer initiates the settlement, have the company spell out exactly what amount of money is required by what date to settle the debt. Be sure the letter acknowledges that the debt will be satisfied if these terms are met—in other words, you won’t hear from any collectors in the future. Don’t send any money until you have a written agreement.

As you discuss the possibility of settling, be aware that the card company representative will be listening for clues about how much you can really afford to pay and if there might be other options for collecting. Keep personal information, such as your employer or bank name, confidential whenever possible.

Do, however, elaborate on how bleak your financial picture is. For example, if you have debts such as overdue child support or back taxes, or if foreclosure, repossession or bankruptcy is a possibility, say so. (If you consider bankruptcy, do not incur any additional debts. If you do you may not be able to discharge them in a Chapter 7.)

Settlement fraud

Many consumers learn about settlements through ads for debt settlement companies. These companies promise to negotiate settlements with your creditors in exchange for upfront fees that can be 15% or more of the original debt. Some of the companies have even been accused of fraud. Your best bet is to avoid debt settlement firms and work with your creditors directly.

You can contact a reputable, non-profit credit counseling agency to learn more about your options for dealing with debt.

Find a local agency at the National Foundation for Credit counseling website (www.nfcc.org), or by calling the NFCC at 800-388-2227. ■

Rates rising

Continued from page 1

on all three cards surveyed.

• Chase increased its penalty rate by almost three points (to 29.99%) on its Perfect Mastercard, between March and June ‘09.

Credit card issuers seem determined to take full advantage of their ability to hike interest rates and fees “anytime for any reason” before it becomes a good bit tougher when the new credit card law takes effect next February. While lenders will retain the right to raise rates and fees once the Credit Card Accountability, Responsibility and Disclosure (CARD) Act takes effect, they will no longer be able to apply that increase to your balance. *(For details on the new law see page 3.)*

Credit CARD Act author Senator Christopher Dodd (D-CT) and Senator Charles Schumer (D-NY) have railed against these rate increases and called on the Federal Reserve to impose an “emergency freeze” on rate hikes. The Fed has taken no action.

What’s happening?

Cardholders with variable rate cards haven’t received the full benefit of the drop in the Prime Rate. (The prime rate is the index most credit card issuers use to set variable rates.)

The Prime Rate has actually decreased two percentage points in the past year, from 5.25% to 3.25%. Consumer Action’s Credit Card Survey shows this year’s average variable interest rate interest rate is 13.20%—only one percentage point lower than last year even though the Prime Rate has dropped two points.

Lenders have said they will lose tens of billions of dollars in penalty interest income when the new credit card law takes effect. They also say they’ll lose money when payments are applied more equitably under new payment allocation rules. Any amount above the minimum payment will be applied to your highest rate balance, which will save cardholders finance charges.

Making up losses

The changes, and the fact that credit card delinquencies are at record highs, are prompting companies to look for ways to make up for present and future lost revenues. Some issuers are hiking rates across the board while others are raising rates and adjusting terms for specific customers. The companies run the danger that new terms will make cards so unaffordable for some people that they may not be able to repay their balances and cause even greater losses.

A cardholder’s dilemma

Tempting as it may be to tell your card issuer goodbye, be aware that closing your accounts might hurt you in the long run.

Weigh your options. Do you have other credit cards to turn to without nearing your limit? These days if you’re using more than half of your credit line you risk seeing your interest rate rise because you may be considered a greater credit risk. What’s more, if you close older accounts, or cut down on your overall available credit lines, your credit score could drop, again raising your credit risk.

Keep an eye on terms and fees. Read all material from your card issuer. While some might be junk, you could miss an important, time-sensitive notice. If your rate is headed up, you may want to use another card. (Watch for rate changes on your spare card, too.)

Pay on time. Now more than ever be sure to get your payment in before the due date.

Sign up for ‘e-alerts’. Put lenders to work for you with email reminders when you near your due date or credit limit. You can do this by creating online access to your credit card account and signing up for e-alerts. Online access can also help you monitor your account to make sure your monthly charges are manageable.

Don’t forget to negotiate. While some lenders have no sympathy for cardholders who complain that a higher rate is too much to handle, others are willing to reduce your rate, at least temporarily (six to nine months). This does not apply to all customers, but it’s worth a try. ■