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 Gainesville, FL couple told Consumer Action. “We’re puzzled by the behavior of banks ... that have opted to make changes before the new law takes effect next February.”

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 onto its Platinum Plus Cash Rewards’ purchase APR, and its Accelerated Rewards American Express card. Capital One tacked two points onto 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 cash 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%.

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...
Credit card terms a changin’ in advance of new law

By Ruth Suwwein

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 50% 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 3%.

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 3% hike more than doubles a cardholder’s monthly minimum payment. A Chase cardholder from Tampa, Florida, writes to us 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 in payment a send in a payment of less than the minimum. This puts them at risk for being considered to have paid late, even if they pay the minimum payment on time.)

“Chase has told some customers that minimum payments will increase from 2% to 3%.”

Last year, more than half of cards surveyed (21) offered a 25 day grace period and six more offered a range of 25-30 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.

Last year, more than half of cards surveyed (21) offered a 25 day grace period and six more offered a range of 25-30 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.

Failing to pay your minimum payment on time because the company wants to see these customers pay off their debt.

“Chase has told some customers that minimum payments will increase from 2% to 3%.”

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 card applications 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.

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“Chase has told some customers that minimum payments will increase from 2% to 3%.”

Make categories for outstanding balances (credit cards, retail cards) and find what you can afford.

If you’ve missed or been late on any payments in the past two years, you may have lower credit and a higher interest rate. (Chase is one of the companies that offers a range of interest rates from 2% to 5% that varies with your credit score.)

“For most people, their credit scores are a non-negotiable when they apply for a new card.”

What’s your credit level?

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

Consumer Action is a non-profit 501(c)(3) advocacy and education organization founded in 1971. We publish surveys and distribute multilingual educational materials in printed form and on the Internet. Consumer Action provides nonpartisan advice and referrals on consumer problems. Chinese, English and Spanish are spoken. Call or write: (415) 777-9635 • (213) 624-8327

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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 FFCU. (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 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 a cardholder’s rate 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 $10 (Golden1) to $39 (Addison Ave, FFCU, 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:

“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& & Universal card)

“Always apply your payment to the lowest APR balance first.”

“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 does not apply your payment in a consumer friendly manner—without being required to. It applies your payment to cash advance purchases first.

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 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 designator index such as the Prime Rate. Credit cards: 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 to 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.

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Source: Consumer Action Credit Card 2009 Survey
New credit card law
Many anti-consumer practices are banned

By Monica Steinisch

At 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 far beyond 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.
• Limits on fees.
• Restrictions on penalties.
• Restrictions on subprime rates.
• Restrictions on balance transfers.
• Mail bills 21 days before the due date.

Some traps remain
While the Credit CARD Act does much to level the playing field for cardholders, 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 2010 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. Even a low balance card must be given 45 days advance notice.

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

• Do 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 these fees can be 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 creditor as a high 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.)

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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 hiring 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 5% to 10% of the amount you take 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 Reward card and the Platinum Plus Visa Jumped from 3% to 4% from March to March. Both do not incur 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%.

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 programs.

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’s Trust’s Classic Card.

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

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

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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 two years
• 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:

“Why 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 do not opt out, we will change your account. You can then pay the remain in your account as follows:

• To forgo another $150!
• To pay only the minimum payment

Nuisance fees
Be on the lookout 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 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 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 teaser 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 feasibility.

Disclaimer: The information in this article is for informational purposes only. It is not a substitute for professional advice. You should always consult a professional before making any financial decisions.

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The real deal

Beware of outdated credit card information online

By Michelle de Mooy

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n today’s economy, the one thing you can count on is change, from 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 a real challenge. You may find 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...”

Golden 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 card 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 FreedomSM 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 consumer 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 your 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 learn 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 a 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. (For more on our surveyor’s impressions see page 7.)

Recently, a New York consumer tried to work with his issuer’s customer service department to try to find out 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 he 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 that 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 elimi- nate the fees and return his APR to its original rate.

“Of course, every consumer can get hit by these kinds of things,” 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

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or 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 to talk to you if you are informed 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 personal information “required to pre-qualify 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 a 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) use to describe their web sites for all to view. It was not customized in any way—in fact it did not even offer a specific APR, just a meaningless range of possible inter- est 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 Schum- er, 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 a Schumer Box. Credit 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 card application, revealing highly sensitive personal details at 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, decline it. No impact on 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 inqui- ries, one I had initiated in the past. The score report noted that certain inquiries “do not affect your FICO® score and are not listed here.”

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. All this left me scratching my head.

In this day and age of identity theft, asking up front for highly sensitive personal information before providing a disclosure required under the law is a deal killer. It’s bound to turn off all but the most desperate credit applicant, revealing 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 busi- ness 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 commit- ted 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 must comply with all the specific terms and conditions...”

In our opinion, the HSBC pre-qual- ification 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 found customer service to be on the face of stonewalling by service reps and application specialists. They encountered widespread ignorance abounded in your welcome packet questions. And sometimes our surveyors even faced aggressive and threatening behavior by customer service representatives.

Despite customer 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 material and talked 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.

By 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 credit card 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 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 access to my account and she told me I would have to go inside a bank branch and complete an application. She 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 contact another representative on Washington Mutual, now owned by Chase.

Chase’s corporate offices told Consumer Action it was 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 union representatives were more accessible, some of them did not have informative websites or online applications. On several occasions, researchers 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 surveyor historians have found HSBC to be unanswerable or unwilling to answer detailed questions. Often researchers were run around, transferred from department to department and ultimately told that no answers can be given without 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, 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’s 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 being asked to 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 student 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 rates, it rarely, if ever, the “sole reason.”

This year, we found statements from two surveyed banks, HSBC and US Bank, that 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 standalone 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 ban 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 a universal default policy. We 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 customer 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—but not to the bank.

Cindy Savio, vice president of public affairs for HSBC-North America, assures that her company has no universal default policies. “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 minimum monthly 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.)

Gift cards 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 all gift cards do not expire in time to be used.

The National Association of Unclaimed Property Administrators web site (www.missingmoney.com) has a fact sheet titled “State Gift Card Consumer Protection Laws” that details the states law.

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.
‘Setting’ the debt with your credit card company

By Monica Stetsnich

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ince last fall, some credit card companies have been showing greater flexibility when it comes to settling a delinquent account, 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 employment means that many delinquent cardholders lack jobs, assets or home equity to pay their balances. As a result, card companies are focusing on collections rather than new cards 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 these additional six 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 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 exceed your assets) before the cardholder 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.

Your need to get it in writing. Whether you or the card issuer initiate 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 creditors in the future. Don’t send any money until you have a written agreement.

A cardholder’s dilemma

Tempting as it may be to tell your card issuer good-bye, 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 rates increase 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 even in 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.)

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