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2010-2011 Credit Card Survey Issue

Comparing credit cards with the government's help

Key findings from new Credit Card Survey

By Ruth Susswein

This year for the first time consumers can visit one website to learn the cost and terms of most credit cards in the marketplace—at least in theory.

The Credit CARD Act of 2009 required the Federal Reserve to create a website that would make credit card terms and pricing information accessible to consumers, researchers and advocates to shed some light on the often complicated, tedious, hidden and labor-intensive process of credit card shopping.

But the Fed site (www.federalreserve.gov/creditcardagreements) needs improvement before it will be useful to consumers looking for the right card.

Too much or too little?

As Consumer Action reviewed issuer information for our 2010-11 Credit Card Survey, we found that it is often impossible to know which credit card you are looking at.

While the information is sorted by issuer, the agreements, each its own PDF, often are not labeled with the card's name. For example, cards are often listed as "Agreement 1 or 2" instead of by product name, such as XYZ Bank Platinum Card. One has to download each agreement individually to learn, in some cases, that the agreement doesn't note the card's name. Others offer only vague terms.

Let's say you are looking for details on the Discover Miles card. If you download a generic agreement from the Fed site, you learn only that your interest rate will be somewhere between 9.9% and 22.9%, with an annual fee of zero to $60. That's a lot of wiggle room.

Some card issuers (such as Everbank and Golden1 Federal Credit Union) have no agreements on the Fed site, because smaller issuers and some credit unions are not required to submit their cards. Others issuers, like Wells Fargo and Citibank list eight and 10 agreements respectively, each with no name, but we could find no disclosures for the cards we survey from year to year. We found that 17 cards out of 41 we chose to survey (41%) had no PDF on the Fed site. This could be because issuers are only required to post agreements for cards they are actively marketing to new customers.

Rate and fee information on the Fed website may be accurate, but it might be hard to tell. The Fed does not require that rate and fee information be updated unless there has been a change in the offer.

HSBC Bank, which issues many private label cards with retailers and other companies, included more than 30 card agreements on the Fed site but it was close to impossible to know which cards the disclosures were for, because most were labeled only with a long string of numbers instead of a card name. Some of the HSBC agreements we found in September and October of 2010 were dated February 2008. Even if the information is still current, we think consumers may be confused by the old dates.

The Federal Reserve has a disclaimer

See "Key findings," page 2

Survey at a glance

Issuers: 20 **Cards:** 41

Average APR: 15.05%

Low: 6.25% (First Command Bank *Platinum Visa*)

High: 24.90% (high rate[1] on Capital One's *Standard Platinum*)

Variable Cards: 40

Average Variable APR: 15.06%

Low: 6.25% (First Command Bank *Platinum Visa*)

High: 24.90% (high rate[1] on Capital One's *Standard Platinum*)

Fixed Rate Cards: 1

Rate: 9.99%-15.99% (Town North Bank *TNB Platinum Mastercard*[2])

[1]Rate is dependent on credit rating. Applicants with good credit qualify for a lower rate.

[2]Card was surveyed but is no longer marketed at press time.

CARD Act changes are noticeable, finds poll

By Linda Sherry

Consumers are clearly aware of changes in their credit card statements in the past year. Almost 80% of cardholders who participated in an online credit card poll in December said they noticed changes in their bills. More so, 68% of consumers said that their credit card bill was easier to read and understand this year.

Consumer Action conducted a credit card poll using Survey Monkey from Dec. 10-20, 2010. The questionnaire was completed by 436 people.

Two thirds of respondents (67%) said that the terms for using the credit card were clearer than they had been a year ago, however the percentage dropped to 46% when respondents were asked if the cardholder agreement and notices regarding changes in terms were more understandable.

"I've noticed more information being sent. However, it's still not real clear. The font is very small and there's too much information to read at one sitting," complained a respondent.

But it's the new minimum payment warning on bills that caught the eye of an overwhelming number of cardholders. Eighty-seven percent of respondents said they had noticed the explanation of how long it would take them to pay off their balances if they only paid the minimum due. A quarter of these people said that the notice had nudged them into paying more than the minimum and 16% said the notice caused them to pay more than they used to.

Only people who carry a balance for more than two months receive the warning notice—most people who make a habit of paying in full don't see a minimum payment warning on their bills. But if your minimum payment were to rise, card issuers would be required to give you 45 days advance notice before imposing the higher rate.

Minimum payment warnings and simpler, clearer language are part of CARD Act requirements and Federal Reserve efforts to make credit card bills more user friendly and cardholders more aware of the debt they owe.

Fees and interest rates

It seems credit card companies pulled a switcheroo on many of our respondents in advance of CARD Act rules. More than a third (40%) of respondents said their issuers had increased minimum payments by tweaking payment requirements.

Approximately the same number said their credit card interest rate had increased since last year. (A quarter of them said they did not know if their rate had risen.) Of those who said their rate had increased, 56% were told that it was because of "market conditions" and other allusions to the economy. Only 7% were hit with a higher interest rate because they were 60 days late or more on a payment.

"They [issuers] said that every one across the board is raising rates and that is just the way it is," noted a respondent. "If I did not like the new rates I could cancel my account. Yeah, right, and screw up my credit rating in the process!"

"No company is willing to lower their interest rates," complained another. "Some were increased unilaterally just before the Act took place."

Eighty-five percent of respondents said they had seen their credit card fees increase from last year (annual fees, 16%; late fees, 28%; over limit fees 19% and balance transfer fees, 22%).

The CARD Act put a virtual cap on penalty fees in August, and required card issuers to provide 45 days notice when increasing other fees or rates. The credit card law also insists that issuers get a consumer's permission prior to charging an over limit fee.

Interestingly, only 10% of those surveyed said they had given permission for the card issuer to approve over limit transactions. About a quarter of respondents (28%) said they were never given the choice.

See "Online poll," page 4

Where's the data?

In years past, our annual Credit Card Survey issue included a chart showing all the cards we surveyed. Since 2009 we have presented this information, as well as a detailed summary of our findings, online.

To find these materials, which are formatted to print easily, visit our website home page (www.consumer-action.org) and choose Survey Archive from the black navigation bar at the top of the page.

Please note that you are prohibited from using Consumer Action's name or any reference to its surveys in advertising or for any other commercial purpose. ■

Consumer Action

www.consumer-action.org

Consumer Action has been a champion of consumers nationwide since 1971. A nonprofit 501(c)3 organization, Consumer Action focuses on financial education that empowers low to moderate income and limited-English-speaking consumers to financially prosper. It also advocates for consumers in the media and before lawmakers to advance consumer rights and promote industry-wide change.

By providing financial education materials in multiple languages, a free national referral and advice hotline, and detailed pricing surveys, Consumer Action helps consumers assert their rights in the marketplace and make financially savvy choices.

Consumer Action provides nonlegal advice and referrals on consumer problems. Chinese, English and Spanish are spoken. Call or write:

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Over limit? It's up to you

By Ruth Susswein

The days of credit card bill shock due to over limit fees are history—unless you choose to accept them. If you attempt to make a transaction that exceeds your credit limit, credit card issuers can no longer automatically slap you with a $39 fee. Now issuers must get your permission to allow you to go over your credit limit, and be charged a fee. No permission, no fee, even if the issuer inadvertently approves an over limit transaction.

Only 10% of the respondents to Consumer Action's December online credit card poll said they have chosen to opt in and allow over limit transactions. A little more than a quarter said they were not given the option.

Even if you opt in (which Consumer Action does not recommend) going over limit is not as pricey as it used to be. Consumer Action's 2009 survey found over limit fees of up to $39. These fees could be charged repeatedly every month, even if you had made no new transactions but were still over your limit. Since last August, over limit fees have been limited to $25 per transgression ($35 if you've gone over limit twice in six months.). The Federal Reserve allows card companies to charge more if they can make a valid case that their costs exceed the caps.

As part of the CARD Act, penalty fees—including over limit fees—must be "reasonable and proportional." The Federal Reserve has ruled that if you go over your credit limit by $3 your over limit fee must also be limited to $3. In this year's survey, over limit fees were typically disclosed as "up to $35" although they could be a lot less for some cardholders.

Outside the limits

While there are new limitations on penalty fees, there are no limits on penalty rates, and most card issuers reserve the right to increase your interest rate going forward if you exceed your credit limit.

Consumer Action found that many issuers are not including over limit fee information in their offers. Almost three quarters (71%) of surveyed cards did not show an over limit fee, which does not mean that issuers do not charge these fees anymore. It means that most do not disclose that information before consumers apply for a credit card. In 2009, we found that 92% of cards surveyed carried over limit fees.

Since over limit fee limitations took effect, some card issuers such as American Express, Discover and Bank of America have eliminated the over limit fee—and in some cases the very ability to exceed your limit. Attempted over limit purchases will be declined. ■

Over limit headaches

Opting in to allow over limit transactions can result in more than just an over limit fee.

That's because your card issuer may impose a penalty interest rate when you go over your limit. Eight issuers surveyed this year stated that exceeding your limit is reason to impose a penalty rate.

In surveyed disclosures from Chase, Citi, Digital Federal Credit Union, Fifth Third, Golden1 Federal Credit Union, HSBC, PNC and US Bank, going over limit was cited as a reason that rates on future purchases might be increased.

If you're nearing your limit, think twice before risking a rate hike for one more purchase. ■

Key findings

Continued from page 1

stating that they are "not responsible for the content of the agreements, including any discrepancies… omissions… or any other errors." The Fed's system, which requires quarterly updates for new offers, results in a lag in posting current offers, adding to the confusion.

The Fed site's limitations may lead to a lot of guesswork and confusion on the part of consumers—certainly not the intent of Congress in passing the CARD Act.

Some issuers registered just one agreement on the Fed site to cover all their current offers. For example, Capital One listed interest rates as 0% to 14.9% and 9.9% to 24.9%. Consumers would be better served by visiting the Capital One site, where cardholders are matched with appropriate cards based on their credit histories.

Not all issuers provide complete information on a card's terms and fees even on their own websites.

Each year, Consumer Action has found that some information that may cost consumers money is missing, unclear, or buried too deep for even a dogged researcher to find. Some sites (such as Capital One and American Express) provide excellent disclosures of key interest rate and fee information.

Can't be found

Since the CARD Act, we find that credit card information has become much clearer at most top issuers. But some costs are not required disclosures, such as a fee to pay your bill the day it's due with the help of a representative. This fee is difficult for potential cardholders to determine, but if you're someone who tends to pay your bill at the last minute, you may want to know before you choose a card that it will cost you $15. For now, you'll have to call a card company's customer service line and hope the representative has the right information.

"No customer should have to take out a loan without knowing the cost and the risks of the deal up front," presidential advisor Elizabeth Warren told a room filled with consumer advocates in December 2010. Warren said one of the first priorities of the new Consumer Financial Protection Bureau (CFPB) is to add further clarity to credit card pricing so that people can fairly evaluate and compare costs.

Interest rates up

Many cardholders have complained to Consumer Action that they've seen the interest rates on their cards climb in the past year. Our Credit Card Survey found that the average variable interest rate jumped nearly two points in 2010—from 13.20% in '09 to 15.06%. Meanwhile the Prime Rate (to which variable credit card rates are pegged) has stayed put at 3.25% for a couple years.

"Since card issuers lost the unlimited freedom to penalize cardholders for risky behavior, we're starting to see the real cost of credit upfront," says Linda Sherry, Consumer Action's director of national priorities. "I think we can attribute recent rate increases to new efforts by issuers to ensure that interest rates reflect customers' creditworthiness. Even though rates still can rise going forward, card companies now need to price accounts appropriately from the start, instead of sneaking profits in on the back end with 'gotcha' penalty fees and interest rates."

Penalty rates on the way out?

Two major credit card issuers in our survey have stopped imposing penalty (default) interest rates. Our surveyors found that Bank of America lists "None" on its solicitation disclosures, and Wells Fargo's materials show it ditched default rates in July. So what's the catch? Card issuers are shifting their emphasis from penalty pricing to risk-based pricing. (*For more on this phenomenon read "Credit card pitfalls still exist," on page 4.)*

One penalty rate worth noting in this year's survey is at HSBC. Rarely if ever do we see penalty rates go down—especially with no movement in the Prime Rate. HSBC had the highest penalty rate in our last two surveys (31.99%). This year we found penalty rates of 27.24% on the two HSBC cards we surveyed, a drop of close to five percentage points.

Cracking the 18% cap

Credit unions are traditionally known for offering somewhat better rates and fees to cardholders, particularly when it comes to penalties. But there are some signs in this year's survey that that may be changing. National credit unions have an18% limit on how high their interest rate can go – even if you get hit with a penalty rate. However credit unions that are regulated by the states may or may not have a usury cap on interest rates. Golden1 Federal Credit Union, whose membership is mostly comprised of California teachers, has upped its penalty rate to 22.9% this year. That's up from 17.5% in '09. This is yet another reason to be sure to get your credit card payment in on time.

Know your limits

Practices for exceeding your credit limit have changed dramatically in the wake of the CARD Act. Some issuers have eliminated the opportunity since companies must now get your permission to approve over limit transactions and charge you a fee. About three-quarters (71%) of cards surveyed this year did not disclose an over limit fee. We found that 92% of surveyed cards charged an over limit fee (up to $39) in 2009.

(For more on all the changes to over the limit fees see "Over the limit? It's up to you" above.)

Transfers at a cost

Transfer a balance to a Discover card and you'll pay a 5% fee. That's up from 3% last year. Average balance transfer fees have increased overall in Consumer Action's 2010 findings. This year the average fee was 3.53% with a range from 2% to 5%. In 2009, these fees ranged from 2% to 3%, with an average of 2.94%.

This year, you'd be advised to check out restrictions before transferring a balance. Many cards, such as Discover Miles and More cards, no longer offer rewards on balance transfers.

While the dire predictions of more annual fees following the CARD Act haven't materialized, there have been increases in less obvious costs. To choose the best card for you, look deeper than the APR to determine the true cost of using the card. ■

The Credit Card Survey was conducted between Sept. 21-Oct. 27, 2010 by Vickie Tse, Dennis Wong and Ruth Susswein of Consumer Action. Linda Sherry conducted additional research in December 2010.

Information you won't find but still need to know

By Ruth Susswein

Since the CARD Act, credit card bills and disclosures are easier to read. But while these materials disclose certain essential rate and fee information, from our point of view there are still gaps.

Say your next credit card bill is due on a Sunday. The law says that if your payment arrives by 5 p.m. on the following Monday it will be counted on time. Whew! That saves you a late fee and most likely a penalty interest rate on future purchases. But not so fast—if your card issuer processes mail on Sundays you're out of luck because they're not required to disclose this.

Tip: Call your issuer to learn if it processes payments on Sundays. Or leave enough time (at least a week by snail mail) for the payment to arrive before a Sunday due date.

Just-in-time payments

Even the most conscientious consumer may occasionally pay late if they've been out of town or mislaid a bill. Some card companies offer expedited payment options to allow you to pay the bill at the last minute. The CARD Act prevents credit card companies from charging a fee for this unless the payment is made within 24 hours of the due date and you speak with a live customer service representative. This is a fee that companies are permitted to disclose at the time it's charged, as opposed to advance notice. None of the issuers in Consumer Action's 2010 survey disclosed these fees in solicitation materials.

Prove it

Card companies are now required to verify that consumers have the ability to pay a credit card bill before issuing credit or increasing credit lines. Since students under age 21 don't always have income, that requirement is especially crucial to make sure they are not burdened with credit they cannot repay.

The law allows companies to use models from credit bureaus to estimate a student's income, instead of requiring traditional proof such as tax forms or pay stubs. (Be aware: Some lenders are including student loans as student 'income' which unfortunately is not prohibited.)

Lacking adequate income, young people can choose to have an adult co-signer on the account.

Everbank was the only issuer surveyed that revealed the conditions required for young adults to open an account:

"If you are under 21 years of age, in order to qualify for an EverCard Visa Platinum Credit Card, along with your application you must either provide financial information evidencing your independent ability to make the required minimum payments, or apply with a cosigner or joint applicant who is at least 21 years of age, who can evidence the ability to make the required minimum payments, and who will be jointly liable for the debt on the card."

Buried deep

Other key information is not available up front but remains buried in lengthy, dense cardholder agreements that arrive after you're approved for credit. For instance, AT&T (Citibank) clearly discloses in its agreement that interest rate increases will apply to your credit card balance if you are 60 days late in paying. (Otherwise, by law, rate increases only can apply to future purchases.) While they warn you of a late fee in credit card offers, the 60-day provision is not mentioned until you become a cardholder. ■

For a summary of rights and restrictions under the CARD Act visit the Consumer Action website (www.consumer-action.org) and enter "Know the new credit card law" in the search field.

Lowest rate credit cards

These are the five lowest variable rates found in our 2010 survey. Of the surveyed cards still offered at press time, all have variable interest rates. Many of the fixed rate cards we previously surveyed have been converted to variable rates, which adjust when the Prime Rate changes. Visit www.consumer-action.org/archives/surveys for a list of all surveyed cards.

APR	Annual fee	Bank (card name), website
6.25%	None	First Command Bank (Platinum Visa) www.firstcommandbank.com
7.25%	None	Simmons First (Visa Platinum Card), www.simmonsfirst.com; Iberia Bank (Visa Classic[1]), http://creditcards.iberiabank.com/
7.99%	None	PNC Bank Visa Platinum[1]
9.15%	None	Wells Fargo (Cash Back Platinum Card[1] and Visa Platinum[1]), www.wellsfargo.com
9.49%	$19	Navy Federal Credit Union[2] (goRewards[1])

[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.

CARD Act cuts penalty fees

By Linda Sherry

Good news! The CARD Act has done much to limit the fees that cardholders pay, and the predictions of widespread annual fees have yet to pan out. While Consumer Action surveyors found that card issuers were a little slow to change their disclosures—most had not amended their solicitations during our survey from Sept. 21 to Oct. 27—a checkup on Dec. 15 found that most companies had updated solicitations to reflect the new fee limits.

Consumers gained new protections from limits on "penalty fees" under CARD Act rules. Penalty fees include fees for paying late, going over-limit and bouncing a payment check. Generally, fees cannot be greater than the amount of the related violation, issuers cannot charge fees that exceed maximum fee amounts and you can't be charged two different fees for the same violation.

Here are some examples of how the CARD Act restrictions on fees might work:

If your minimum payment is $20, then your late fee can't be greater than $20.

Late fees (and over limit) are limited to $25 ($35 if you're late twice in six months), unless the card issuer can prove to regulators that its costs are greater than capped fees.

If your payment is returned, resulting in a late payment, you could only be charged a late payment fee or a returned payment fee, but not both.

If you go over your credit limit by $5, you can only be charged an over limit fee of $5. Additionally, the CARD Act forbids charging cardholders over limit fees unless they give their express permission that they want over limit transactions to be approved. If you do not give your permission, the merchant likely will decline your transaction. However, if it goes through, you cannot be charged a fee.

Card issuers can't charge you a fee because you don't use your card, if you try to use your card and the transaction is denied, or if you close your account.

Late fees

The CARD Act caps on late fees are likely to result in lower fees for many cardholders. (Tip: If it's your first late fee in a while, and you weren't too late with your payment, call the company and ask to have it waived.)

This is quite a change from 2009, when many issuers used tiered late fees of up to $39 tied to the cardholder's balance. Tiered late fees tied to the cardholder balance, which we first encountered during our 2002 survey, had pretty much replaced flat fees. Last year we found that 73% of surveyed cards used tiered late fees, although only 12% had adopted the practice in 2002. Tiered late fees, while appearing consumer-friendly at first glance, actually penalized those with smaller balances by charging them a larger fee as a proportion of their balance.

While the CARD Act allows card issuers to "justify" the need for higher late fees to the Federal Reserve, at press time no issuer had attempted to do so.

Pay to pay fees

Consumer Action had hoped to find that issuers were disclosing pay-to-pay fees in the solicitations we surveyed. Before the CARD Act, some top issuers were charging $10 to $15 to pay your bill online. Now issuers are prohibited from charging fees for paying your bill online or by phone—unless you need the help of a live representative AND your payment needs to be "expedited" to be on time, generally 24 hours before the due date. (Be aware that your payment must reach the bank by 5 p.m. on the due date to be counted as on time.)

"I think there are many potential cardholders who would appreciate knowing if issuers have a last minute payment fee," said Ruth Susswein of Consumer Action.

Annual fees

Consumer Action found nothing to bear out dire predictions about increased annual fees because of lost revenues from the CARD Act. In fact, we found fewer annual fees, although the average annual fee was a bit higher, at $65.20 (up from $62.75 in 2009). Five of the 41 surveyed cards (12%) had annual fees, while in 2009 eight out of 39 cards surveyed (20%) had them.

Balance transfer/cash advance fees

Balance transfer fees are charged when you transfer a balance from one card to another. The new card usually imposes a balance transfer fee, which typically is the same as a cash advance fee. Balance transfer and cash advance fees are charged as a percentage of the amount transferred or advanced to the cardholder.

Balance transfer fees ranged from 2% (Iberia Bank) to 5% (Citi Platinum Select, Chase Freedom, all Discover cards and Wells Visa Platinum). (Discover, Fifth Third, HSBC, Pentagon Federal Credit Union, Town North Bank, US Bank and Wells Fargo waived the fee on balance transfers for new cardholders on some of their cards.) The average balance transfer fee is 3.53%, based on 32 cards with a balance transfer fee, up from 2.94% in 2009.

While most banks don't cap the fee, seven surveyed banks had minimum fees of $5 (Fifth Third, HSBC, Town North, PNC and Wells Fargo) or $10 (Discover and Pentagon Federal Credit Union). Only three surveyed banks had (the more consumer-friendly) maximums on fees: HSBC ($75), Town North ($99) and Pentagon Federal Credit Union ($100).

Nearly all cards (90%) have cash advance fees. The range of cash advance fees, based on the percentage of the amount advanced is 2% (First Command Bank) to 5% (Citi, Discover, Iberia, Chase and Wells Fargo). The average cash advance fee on 37 cards was 3.81%.

Cash advance fee minimum amounts ranged from $4 to $10. Only three banks capped the fee, including First Command Bank ($75), Golden1 Federal Credit Union ($5) and Iberia Bank ($100).

Four cards had no cash advance fee: American Express Clear, Digital Federal Credit Union DCU Rewards Visa Card, Pentagon FCU Visa Platinum Reward, Navy Federal Credit Union MasterCard goRewards.

Foreign transaction fees

Surveyed banks held steady with the fees they charge for purchases made in a foreign currency. Capital One is the only surveyed issuer that does not charge foreign transaction fees. Fees on foreign transactions ranged from 1% to 3% of the transaction amount.

Outside of our survey, there have been a number of announcements from issuers that will spare certain cardholders foreign transaction fees. American Express, which charges a 2.7 percent foreign transaction fee for most of its cards, announced in December that it would eliminate foreign transaction fees for users of its Platinum Cards and Centurion Cards. Chase announced in 2010 that it would waive foreign fees on its British Airways Visa Signature Card and Citi would eliminate these fees from its ThankYou Premier and Prestige cards.

Consumers should be aware that foreign transaction fees can still be added to online orders placed with companies that you may not have realized were doing business overseas or who use a foreign bank in clearing transactions. ■

Credit card pitfalls still exist

By Ruth Susswein

A year and a half after the CARD Act was signed, some credit card traps have been banned and others reduced, but some remain. With restrictions on default pricing on balances, and caps on penalty fees, credit card companies are on the lookout for ways to replace lost income.

Penalty rates

Two card issuers in Consumer Action's new Credit Card Survey have stopped assessing hefty penalty interest rates, at least on paper. Bank of America states there is no penalty APR on its Visa, Cash Rewards, and Power Rewards Visa Signature cards. Wells Fargo says it eliminated punitive interest rates in July 2010. However, 78% of cards in this year's survey still list penalty rates of up to 29.99%.

Penalty rates are higher interest rates imposed on cardholders who miss a payment, exceed the credit limit or bounce a payment check, or exhibit other signs of "default." The CARD Act prevented higher penalty rates from being applied to your existing balance, but it allows companies to increase rates for at least six months on new transactions as long as the penalty is disclosed up front.

So are penalty rates disappearing? Highly unlikely. Rather, credit card companies are relying even more on "risk based pricing" for new and existing customers. (Rates can be increased for existing customers with 45 days notice.)

Issuers are doing a more thorough job up front of assessing potential customers' risk of default. If you fit a low-risk profile—meaning you have a good income and your credit score shows you pay your bills on time—you will be offered a lower rate credit card. If not, you will be offered credit at far more costly terms. That's what card issuers mean when they say the interest rate is "based on your creditworthiness."

Card issuers still regularly take the pulse of your risk level (and theirs). If they conclude that you are now a greater credit risk, card companies can raise your rate as high as they like, for any reason. The CARD Act imposed no cap on interest rates. Issuers might hike your rate you if your credit record shows that you've taken on more debt, used a larger percentage of your credit lines, or were late or over limit on your last credit card payment.

Avoiding labels

Card issuers may use the same reasons to raise your interest rate, but instead of calling it a "penalty rate" they can call it "risk based pricing." This lets companies slip through a loophole in the law that requires them to disclose across-the-board penalty rates. As long as issuers do not use one punitive rate for all customers they can still price groups of cardholders for risk, while not explaining how much or how often your rate could increase.

What's more, issuers are required to return you to your original interest rate in six months if the penalty rate increase occurred because you paid 60 days or more late, but you immediately resumed on-time payments. If your rate increase was due to "risk based pricing" card issuers are only required to consider a reduction in your rate; they're not compelled to.

Other pitfalls

Minimum payments. With only 10 surveyed card issuers disclosing minimum payment details, Consumer Action's Credit Card Survey showed that minimum monthly payments had increased at three companies. Typically, issuers formulate minimum payments using a percentage of the balance (say 2%), with a minimum dollar amount due, such as $15 or $20. While many companies have not adjusted the actual formula, they have increased the required minimum. This may be because issuers are prohibited from charging late fees that exceed the minimum payment, so increasing the minimum dollar amount allows them to charge a higher late fee if a cardholder misses the due date.

Inactivity fees. Inactivity fees charged for not using your credit card are no longer legal. But one issuer tried to recoup income with a "refundable" annual fee before the Federal Reserve tagged it as an inactivity fee in disguise and banned the practice.

Professional cards. Look out for a surge in offers for "professional" credit cards. Since the CARD Act took effect, some of the biggest card companies have been pitching credit cards for professionals to ordinary consumers. But before you apply, be aware a "professional" card is not your average piece of plastic. In fact, it's a card for businesses and business cards generally are not covered by consumer protections in the Truth in Lending laws, including the CARD Act. This means:

- an issuer can hike an interest rate on a professional card without notice—and the higher rate can be applied to a cardholder's entire balance.
- you could be hit with costly over limit fees and no one would have to ask your permission first.
- if you carry several balances with different interest rates, your payment would not be applied to the highest rate first, saving you the most money. Your payment would take the scenic route, and the least costly balance would be paid down before higher interest balances. This just puts money back in your card issuer's pocket.

Unless you run a business or a professional practice, steer clear of "professional cards." ■

Online poll

Continued from page 1

Carrying debt on the card

Two thirds (66.5%) said they were carrying a balance on their credit card and 76% said their credit card balances had not increased since last year. In fact 60% said they had paid down a significant amount on their credit card balance over the past year.

Only 16% said they were using their credit cards more this year and 30% said their usage had not changed in the past year. Many echoed the sentiments of this consumer: "I pay off the bill each and every month and never carry a balance over. If I cannot afford something, I do not purchase it."

While the majority of respondents say they haven't changed their bill-paying habits, 24% said they were paying their credit card bills on time more often this year.

No can do

About one-fifth (18%) of surveyed cardholders had applied for and been denied access to a new credit card in the past year.

One consumer was told, "Too many new accounts (but they don't define what is considered a new account). Too many balances outstanding (how many is too many?). Too high of a balance (part of the reason it seems high is because they cut my limit in half)."

"I asked for a credit line increase with Bank of America and they denied me," explained another consumer. "They also slashed all my credit lines to $500. This has hurt my credit rating. I am very angry and upset with them for this."

We read a lot in the news this past year about credit card companies offering special programs to help people who were in a financial bind. We heard from 13% of respondents who had asked their issuer for help in making their payments, in the form of a "workout" or "hardship" plan. Of these, more than half (53%) said their issuers refused to help.

"I asked Target and Citibank to work with me on affordable payments after I took a significant pay cut and experienced unexpected medical expenses. They both refused," noted one respondent.

"I asked them for lowered rates or increased credit limits," said another. "They decreased my credit limits instead." ■

Turning students into debtors

By Michelle De Mooy

More than 1,000 colleges, universities and their affiliates, such as alumni groups, raked in a cool $83.5 million last year from deals to market affinity credit cards. According to a recently released Federal Reserve report, 17 credit card companies in 2009 shelled out millions for the ability to sell students and former graduates credit cards emblazoned with school mascots and logos.

This is the first time the public (and Congress) has gotten a detailed look at financial agreements made between schools and issuers. Provisions in the Credit Card Accountability, Responsibility and Disclosure Act of 2009 (CARD Act) require issuers to hand over their credit card contracts with schools and affiliates. The Federal Reserve also is required to submit an annual report to Congress that provides a comprehensive look at the relationships between credit card companies and schools.

Biggest piece of the pie

These agreements reveal that alumni associations had the biggest piece of the pie, earning a total of $43.9 million from affinity programs. Colleges and universities were paid $22.4 million by credit card companies last year.

The top three income-earning programs were the University of Illinois Alumni Association, which earned $3.27 million from FIA Card Services (Bank of America), the Penn State Alumni Association, which earned $2.83 million from FIA Card Services (Bank of America), and the University of Notre Dame du Lac, which earned $1.86 million from Chase Bank. The top three academic beneficiaries were Notre Dame ($1.9 million), the University of Southern California ($1.5 million) and the University of Tennessee ($1.4 million).

Largest co-brander

Bank of America, through its subsidiary FIA Card Services, was far and away the largest co-brander, with 906 of the 1,044 contracts under review by the Fed. U.S. Bank and Chase were the second and third largest players, submitting 60 and 36 contracts respectively.

Affinity card deals often include incentives for the number of new accounts opened and the amount of debt carried on the cards. Thus, the deeper students and others in the school community dig themselves into debt, the more cash schools collect. Though the Fed report itself doesn't mention the details of the deals, a search of the Fed's new database of contracts exposes the benefit to schools, and their affiliates, when students dive into debt.

For example, according to the Fed database, an agreement between MBNA America and the Penn State Alumni Association discloses that the association was given $5 for each new account opened by a student or member, and $10 for each account where a student paid an annual fee or carried a balance. (MBNA America is now owned by Bank of America).

According to the Fed report, in just one year, 53,164 new credit card accounts were opened via affinity programs, with more than 2 million opened since the programs began.

To locate the Fed database online, enter the words "college credit card agreements" in a search engine. ■

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