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, are not tied to 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 credit card you pay the most money on. If you download a generic agreement from the Fed site, you learn only that your interest rate will be somewhere between 19.99% and 22.99%, 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. Other issuers, like Wells Fargo and Citibank list their terms for using the credit card they used to.

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 said that the notice had nudged them into paying more. And 16% said the notice caused them to pay more than the minimum they used to.

Only people who carry a balance for more than 2 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 told that their higher interest rate was because of “market conditions” and other allusions to the economy. Only 7% were hit with a higher interest rate because of “market conditions” and other allusions to the economy. Only 7% were hit with a higher interest rate because of “market conditions” and other allusions to the economy.

“[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 changing 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.

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 at www.consumeraction.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 our surveys in advertising or for any other commercial purpose. © 2011 Consumer Action

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SURVEY AT A GLANCE

ISSUERS: 20  CARDS: 41
AVERAGE APR: 15.05%
LOW: 6.25% (First Command Bank
High: 24.90% (high rate1 on Capital
Variable Cards: 40
Average Variable APR: 15.06%
Low: 6.25% (First Command Bank
Fixed Rate Cards: 1
Rate: 9.99%-15.99% (Town North Bank
1Rate is dependent on credit rating. Applicants with good credit qualify for a lower rate.
2Card was surveyed but is no longer marketed at press time.

Where’s the data?
Consumer Action
www.consumer-action.org

Consumer Action has been a champion of consumer protection 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 limit with the shadow of the credit card 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 go over their credit limit. 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 $35. 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 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 credit card issuers have 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.

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, restates current offers every four months, adding to the confusion.

The Fed’s site 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% but did not identify each card it issued. Visa would have 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 digger researcher to find. Some issuers 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’ve found 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 off your balance in one fell swoop and the help of a representative. This fee is difficult for potential cardholders to determine, but if you’re someone who tends to pay off your balance in a year, you might 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.

“None of this allows you to just look at the fee and know that the deals of the day benefit the bank and risk the deals of the day front,” said Heather 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 disclosure to credit card pricing. “So 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 accounts 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 (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 costs of credit card usage,” said 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 interest 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 pitfalls still exist,” on page 4.)

One penalty rate worthy noting in this year’s survey is at HSBC. Rarely if ever do we see penalty rates on credit cards with no movement in the Prime Rate. HSBC had the highest penalty rate in our last two surveys (3.95%). This year we saw 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 an 18% limit on how high their interest rate can go—even if you get hit with a penalty rate. However credit card issuers that are part of the credit union system may now get your permission to improve 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 the over limit fees see “Over the limit? It’s up to you.”)

Transfers at a cost

Transfer a balance to a Discover card and you’ll pay a 5% fee. That’s up from 3%. Annual fees have increased dramatically in the wake of the CARD Act. Some issuers have eliminated annual fees altogether. This year’s survey, you 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 the over limit fees see “Over the limit? It’s up to you.”)

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Information you won’t find but still need to know

By Rhys Guswein

S

ince the CARD Act, credit card bills and disclosures are easier to read. Most, but not all, of the 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. Where that leaves you if you’re late and most likely a penalty interest rate on future purchases. But not so fast—if your card issuer encounters 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. However, 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 issuers to use models from credit bureaus to estimate a student’s income, instead of requiring traditional proof such as tax returns 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 denied a credit card application requiring a co-signer 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 (for higher application you must either provide financial information evidencing your independent ability to make the required minimum payments, or apply with a co-signer 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 upfront but remains buried in lengthy, dense cardholder agreements that arrive in the mail or online orders placed with companies that business overseas or who use a foreign transaction fee. Furthermore, issuers have the right to impose a fee on a late payment, so ensure your account is current before carrying out your international transactions.

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 card law card” in the search field.

Lowest rate credit cards

These are the five lowest variable rate found in our 2010 survey. Of the surveyed cards still offering the lowest rates, most of the fixed-rate products that 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.

<table>
<thead>
<tr>
<th>APR</th>
<th>Annual fee</th>
<th>Bank (card name), website</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.25%</td>
<td>None</td>
<td>First Command Bank (Platinum Visa) <a href="http://www.firstcommandbank.com">www.firstcommandbank.com</a></td>
</tr>
<tr>
<td>7.25%</td>
<td>None</td>
<td>Simmons First (Visa Platinum Card), <a href="http://www.simmonsfirst.com">www.simmonsfirst.com</a>; Iberia Bank (Visa Classic, Signature), creditcards.iberiabank.com</td>
</tr>
<tr>
<td>7.99%</td>
<td>None</td>
<td>PNC Bank Visa Platinum1</td>
</tr>
<tr>
<td>9.15%</td>
<td>None</td>
<td>Wells Fargo (Cash Back Platinum Card1 and Visa Platinum1), <a href="http://www.wellesnfc.com/creditcards">www.wellesnfc.com/creditcards</a></td>
</tr>
<tr>
<td>9.49%</td>
<td>$19</td>
<td>Navy Federal Credit Union1 (goRewards1)</td>
</tr>
</tbody>
</table>

1Lowest rate in a range on applicant’s credit history. Generally, only applicants with excellent credit qualify for this rate.

Requires membership in the credit union.

CARD Act cuts penalty fees

By Linda Sherry

G

ood news! The CARD Act has done much to limit the fees that cardholders pay, and the predic-

tions of widespread annual fees have yet to pan out. While Consumer Action survey respondents found that card issuers were little slow to change their disclosures—most had not amended their solicitations during our survey from Sep. 21 to Oct. 27—they did find that most companies had updated solicitations to reflect the new fee limits.

Consumers gained new protections from fees they might reasonably view as “penalty fees” under CARD Act rules. Penalty fees include fees for paying late, going over-limit and applying for credit, among others. However, issuers have a last minute payment fee, “in case the cardholder forgets to pan out. While Consumer Action discovered that some issuers charged up to $10 to $15 to pay your bill online, 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 processed on the same day, generally 24 hours before the due date.

(To be aware that your payment must reach the issuer by 5 p.m. on the due date to be counted as on time.)

“I think there are many potential card-

holders who would appreciate knowing if issuers have a last minute payment fee,” said Rhys Guswein 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 that 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 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 range from 2% (Bank of America) to 5% (Citibank). The average balance transfer fee is 3.5%, 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 Pentagone Federal Credit Union). Only three surveyed banks had the (more consumer-friendly) maximums on fees: HSBC ($75), Town North ($99) and Pentagone Federal Credit Union ($100). More cards have fee caps, the range of cash advance fees, based on the percentage of the amount advanced is 2% (First Command Bank) to 5% (Citibank, Chase and Wells Fargo). The average cash advance fee on 37 cards was 3.81%.

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

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 an-

ounced in 2010 that it would waive foreign transaction 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 Sauewine

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 have the look of a recipe 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 and Wells Fargo say 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 accounts as long as the penalty is disclosed up front.

So are penalty rates disappearing? Highly unlikely. Rather, credit card companies are relying 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 upfront of assessing potential customers’ risk of default. If you fit a low-risk profile — such as a card to a college student 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 you conclude that you are now a greater credit risk, card issuers can raise your rates as high as they like, for any reason. The CARD Act imposed no cap on interest rates. Issuers might hike your rate if you 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 penalties

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 less companies affinity programs. Colleges and universities require 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 increases 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 cardholders 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 $1 or $20. While some companies have not adjusted the actual formula, they have increased the required minimum. This may be because issuers are prohibited from raising 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 allowed. But one issuer tried to recoup 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 that 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.
• 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 profession in practice, steer clear of “professional cards.”

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Mail to: Consumer Action, 221 Main St., Suite 480, San Francisco, CA 94105. Donations are tax-deductible. 1/11

Online poll

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. An echo chamber among 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 that means) and too many balances outstanding (how many is too many?).” Too high a balance (part of the reason it seems high is because they cut it in half),

“ar 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 heard a lot about credit cards being cut or frozen 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 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 was laid off,” explained another consumer. “They decreased my credit limits instead.”

Turning students into debtors

By Michelle De Muyq

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 the top 10 co-branding companies that are linked to schools.

Affinity credit cards 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 Federal 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 fall 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 its annual fee and did not have 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 program began.

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