consumer action
Education and advocacy since 1971

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Comparing Cards Still a Struggle but CARD Act Helps

Credit Card Survey shows rates and some fees not controlled by the CARD Act are up, yet cardholders stand a better chance of knowing 'real' cost of credit

February 3, 2011—As we approach the Credit CARD Act's first anniversary, Consumer Action's latest Credit Card Survey finds that the law has added clarity and cardholder protections to the marketplace as card issuers begin to reveal the true cost of credit upfront, even while blaming rate hikes on regulation. However, work still needs to be done to better enable consumers to compare cards.

Consumer Action's survey of top credit card issuers reveals that interest rates are up nearly two percent over last year. Our 2010-2011 Credit Card Survey finds that the average variable interest rate increased from 13.20% in '09 to 15.06% in 2010—with no corresponding rise in the Prime Rate. The prime remains at 3.25%.

"Issuers have been trying to make up for any limits imposed by the CARD Act by increasing margins on variable rate card offers," said Linda Sherry, Consumer Action's director of national priorities. "No one wants to see rates rise, but we're better off now that issuers have to price accounts appropriately from the start instead of sneaking profits in on the back end with 'gotcha' penalty fees and rates."

When the Prime Rate plummeted from 7.25% to 5.25% in '08 and to 3.25% in '09, the average variable rate for cardholders inched down by only one percent in 2009 (from 14.25% to 13.20%). In all of 2010, and so far in 2011, the prime rate remains at 3.25% but the average variable credit card rate in our survey is up to 15.06%.

Card issuers lost unlimited control over rates and fees when the CARD Act took effect. For example, rate increases no longer apply to a cardholder's balance, with rare exceptions. However, credit card companies remain free to raise rates (and many fees) without caps or even specific reasons.

But Consumer Action's review of issuer compliance with CARD Act provisions shows that with penalty fees under control and a ban on balance rate hikes, it's easier for consumers to know the real cost of carrying a credit card.

Disclosures on application materials are improved. While rates are higher, applicants can better judge what they are getting into when they apply for a new card, and are protected from rate hikes for a year. Existing cardholders can rely on caps and prohibitions on certain fees, and personalized information on their bills, to remind them to pay off their balances earlier and save on interest. (Penalty fee caps won't apply if card companies can prove that their costs exceed the fee.)

CARD Act brings transparency

Consumers have the Credit CARD Act to thank for recent gains in transparency. The credit card law, which celebrates its first anniversary on Feb. 22, and other improvements to Truth-in-Lending (TILA) were implemented throughout the past year. Consumer Action sought cardholders' responses about these changes in a recent online poll, and the majority said that they found their credit card bills easier to understand since the CARD Act.

- 24% of those polled said that new disclosures on credit card bills of how long it would take to pay off the balance caused them to pay more than the minimum required payment.
- 60% of those carrying a balance said they paid down a significant amount of credit card debt in the last year.
- 40% saw their interest rates rise—more than half of them report that the increase was attributed to market conditions.

Fed database maze

For the first time Consumer Action's surveyors had access to the new Federal Reserve credit card database. We found its twists and turns are for intrepid travelers only. Many cards aren't labeled by name, vague terms abound and participating issuers have done nothing to cut down on fine print and incomprehensible legalese. It's hard to rely on the information to any degree due to a quarterly submission schedule, a backlog on posting, and rules that don't require issuers to replace agreements if they haven't changed, even when they carry old dates.

"In one case we found current agreements dated to 2008," notes Ruth Susswein, Consumer Action's deputy director national priorities. "If this database is to be of any real use to consumers as a cost comparison tool, the database needs some serious work."

The Credit Card Survey also reveals signs that card issuers are shifting away from penalty rate pricing while still being able to rely on risk based pricing. This means large segments of cardholders are sensitive to price increases with 45-days notice for more generalized reasons. While not a new phenomenon, risk based pricing is gaining momentum as issuers are required to more thoroughly assess risk up front.

Penalty rates—the higher rates charged to individual cardholders when they default—must be disclosed on cardholder agreements. Risk based pricing policies don't need to be revealed upfront. This year we find that two major card issuers said they have eliminated penalty interest rates (Bank of America and Wells Fargo).

"Risk based pricing gives card issuers more flexibility on default pricing, at the same time they make themselves more attractive to new applicants who are sensitive to penalty rates," said Sherry. "The CARD Act did not cap interest rates, so it's still possible to drastically increase rates on future transactions."

Fees: A mixed bag

Consumer Action's survey found that while some fees are on the rise, others have declined or have not materialized.

- Balance transfer fees range from 2 to 5% in 2010. That's up from 2 to 3% in '09. The average fee has increased from 2.94% in 2009 to 3.53%.
- Late fees are capped at $25 (or $35 for a second violation) since the CARD Act required penalty fees to be "reasonable and proportional." From our highest late fee of $39 in 2009, that's a cut of up to $14 (36%).
- Over limit fees were not disclosed in 71% of the offers surveyed and were eliminated by some companies. (New laws require a consumer's permission to impose this fee.)
- Annual fees were up slightly (to $65.20 on average) but fewer surveyed issuers charged them this year, despite widespread speculation that they'd make a comeback following the CARD Act.

Consumer Action found that issuers are complying with the credit card law, but not revealing more than they are required to. Consumer Action's 2010-2011 Credit Card Survey, conducted from Sept. 21-Oct. 27 with additional research in December, is chronicled in the Winter 2011 issue of *Consumer Action News*. Our analysis concludes that issuers could go beyond the rules to provide more helpful information to consumers. Based on our findings, we make the following recommendations to the Fed and the new Consumer Financial Protection Bureau:

- Require that all card agreements in the government database include complete card program names and a way for consumers to judge that they are viewing the most current available information.
- Interest rate ranges should be categorized by credit history (good credit vs. limited or imperfect credit) as some issuers already do on their own sites.
- All fees should be disclosed to prospective cardholders, including over limit (OTL) and expedited pay-to-pay fees. If these fees truly don't exist, then disclosures should say so.

The survey can be found under Featured News on our home page (www.consumer-action.org), or at this specific URL:

http://www.consumer-action.org/news/articles/2010_-_2011_credit_card_survey/

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Consumer Action has been a champion of underrepresented 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.