

Real world examples

In her testimony before a March 7, 2007, Congressional hearing, Alys Cohen, staff attorney for the National Consumer Law Center, shared real-world examples of large national credit card issuers' abusive practices:

- An active-duty sailor opened a bank credit card account with a \$250 credit limit and a 9.9% interest rate. Within a week, her bank assessed a \$95 program fee, a \$29 account set-up fee, a \$6 participation fee, and a \$48 annual fee. Her first monthly statement showed a balance of \$178—and she hadn't made a single purchase.
- A woman who was worried about her credit stability took out over \$100 on a card from a national issuer that had \$492 in the credit limit. The issuer had previously rejected her issuer's attempt to charge an additional \$5,000 in late fees, penalty interest, and credit-protection costs, deeming the charges unconscionable.

Consumer groups and several legislators are working to make such practices illegal, but it won't happen overnight. In the meantime, shop around before you open a credit card account. Ask questions to be sure you understand all the costs involved, then pick the best deal. It's likely to be at your credit union.

should know:

- Your interest rate
 - Whether there are different rates for balance transfers, cash advances, and purchases
 - The order in which payments apply to different types of transactions—some banks pay off low interest-rate balances first so the high-rate ones stay on your account longer
 - Whether the rate could increase to a higher penalty rate, and under what circumstances (such as a late payment—on this card or any other card)
- Also, ask about any annual or monthly fees amounts, and when they're charged. Ask about the grace period, if you don't pay the bill on time, and how long it will take to incur finance charges.

Be sure to ask these questions up front. If you're not satisfied with the answers, maybe it's time to shop for a better card.

Sample

Credit Cards: Switch & Save



Center for Personal Finance
cuna.org
To order: 800-356-8010, ext. 4157
Stock No. 23341

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If you're like most Americans, you probably use more than one credit card. Do you know what would happen if you went over the credit limit on one of your cards, or if you made a late payment? If you got the card from a large national card issuer, chances are you'd be charged high penalty fees, and you might find your interest rate hiked to more than 30%.

According to a 2006 report by the U.S. General Accountability Office (GAO), consumers with credit cards from large national issuers account for 80% of the nation's more than \$1.8 trillion in credit card debt. The report found that in just the last decade, large issuers have sprung many traps to lure consumers into "interest rate of income," says Travis Plunkett, the chief advisor to the Consumer Protection Agency Mission, D.C.

The GAO report says these issuers charge many new types of credit card fees in amounts that have risen much faster than inflation. The report also finds that large issuers' credit card disclosures are confusing, bury important information, and often don't tell cardholders when late fees or penalty interest rates could be charged.

Look at your credit union first

Not all cards are created equal. "Don't just respond to a solicitation you receive in the mail; it may not disclose all the interest rates and fees associated with the card. Comparison shop and find a card that provides the best terms," advises Plunkett.

"We generally recommend consumers look at credit unions first," he adds. "Look at their terms and conditions; in most cases you'll find they're cheaper and the most consumer-friendly."

Nationally, the average credit card late-payment

fee has more than tripled in the past decade, to \$33.64, and fees as high as \$39 are common among large bank issuers. Yet the average credit union

Credit union credit cards often are cheaper and the most consumer-friendly.

—Travis Plunkett, CFA

late-payment fee is \$15 to \$20 lower. The average national penalty fee is \$31, while the credit union

average is more than \$13 less. The average credit union interest rate is significantly lower too, by 274 basis points (100 basis points = 1%), than the average bank rate on credit cards.*

What to ask

If you're comparing rates with these penalties for your credit card, you should read the terms and conditions carefully to understand the account, and you should also ask the lender about the general practices they use to protect your credit. You

*Sources of rate and fee data: 2006 GAO Report, CUNA economics and statistics and Datatrac/Informa.

Common credit card traps

A 2006 report by the U.S. General Accountability Office (GAO) found that large national credit card issuers use deceptive practices to pump up profits. Some of the most common:

- **Universal default**—If you make a late payment to *any* creditor, even if you pay your credit card bill on time, the credit card lender imposes a higher "penalty" interest rate on the credit card. Penalty rates often are more than double the original interest rate. Some lenders invoke universal default under other circumstances as well, such as a decreased credit score or exceeding the credit limit on another loan.
- **Double cycle billing**—Lenders charge interest on credit card debt a consumer already has repaid. For example, a cardholder charges \$1,000

on a credit card and makes a timely payment of \$990, expecting to pay interest on the remaining \$10. But the lender charges interest on the full \$1,000, even though the cardholder already had paid 99% of the balance on time.

- **Junk fees**—Issuers charge "creative" fees in amounts way out of proportion to their costs for processing the account. Examples: Charges up to \$15 for paying on time by phone or online; 3% balance transfer and cash advance fees (or \$300 on a \$10,000 transfer). Some lenders approve transactions over the credit limit, but then charge an overlimit fee—for each transaction while the balance is over the limit.

The report details many other questionable practices; you can read it on the GAO's Web site: gao.gov/new.items/d06929.pdf.