Testimony of the

U.S. Public Interest Research Group

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Oversight Hearing On
Abusive Credit Card Industry Practices

Before the Subcommittee on
Financial Institutions and Consumer Credit

The Honorable Spencer Bachus, Chairman

House Financial Services Committee
U.S. House of Representatives

1 Nov 2001

TESTIMONY OF THE U.S. PUBLIC INTEREST RESEARCH GROUP (U.S. PIRG) ON ABUSIVE CREDIT CARD INDUSTRY PRACTICES

Chairman Bachus, Ranking Member Waters, members of the committee: Thank you for the opportunity to offer U.S. PIRG's views on abusive credit card industry practices. We commend you for having this timely hearing. I am Edmund Mierzwinski, Consumer Program Director, for U.S. PIRG. As you know, U.S. PIRG serves as the national lobbying office for state Public Interest Research Groups. PIRGs are non-profit, non-partisan public interest advocacy organizations with offices around the country.

(1) SUMMARY:

The credit card industry, in efforts to increase profitability above already substantial levels, is engaging in a wide number of unfair, anti-consumer practices. These practices include the following:

- deceptive telephone and direct mail solicitation to existing credit card customers – ranging from misleading teaser rates to add-ons such as "freeze protection;"
- increased use of unfair penalty interest rates ranging as high as 30% APR for consumers who allegedly miss even one payment to <u>any</u> creditor, not merely to the credit card company;
- higher late payment fees, often levied in dubious circumstances, even when consumers mail payments 10-14 days in advance;
- aggressive and deceptive marketing to new customer segments, such as college students and persons with poor credit history;
- partnerships with telemarketers making deceptive pitches for over-priced credit life insurance, roadside assistance and other unnecessary card add-ons;
- the increased use of unfair, pre-dispute mandatory arbitration as a term in credit card contracts, to prevent consumers from exercising their full rights in court;
- the failure of the industry to pass along the benefits of the Federal Reserve Board's interest rate cuts intended to provide economic stimulus, through the use of unfair floors in credit card contracts.

These views are not merely our own. The very worst of the industry's excesses have resulted in increased regulatory, legislative and legal scrutiny:

- In 2000, the San Francisco District Attorney and Office of the Comptroller of the Currency (OCC) imposed a minimum of $300 million in civil penalties and a restitution order against Providian for deceptive marketing of mandatory credit or freeze protection, a form of credit life insurance, and other violations. The OCC, not generally known for hyperbole in defense of the consumer, said the following: "We found that Providian engaged in a variety of unfair and deceptive practices that enriched the bank while harming literally hundreds of thousands of its customers[i]."
- In 2001, the OCC imposed multi-million dollar penalties and a restitution order against Direct Merchants' Bank its practice of "'downselling' consumers by prominently marketing to consumers one package of credit card terms, but then approving those consumers only for

accounts with less favorable terms, and touting the approved account in a fashion designed to mislead the customer about the fact he or she had been 'downsold'[ii]."

- Since 1999, the Minnesota Attorney General and other states have settled multi-million dollar claims against U.S. Bank for its practice of allowing telemarketers access to its credit card customer records for the purpose of deceptively marketing add-on products including credit life insurance, roadside assistance packages, and other gimmickry billed to consumers who did not even give their credit card numbers and had no knowledge that they had allegedly placed orders or would be billed for any product.
- Several private class action lawsuits have been settled recently against other large banks for abusive practices, such as charging consumers late fees, even when they pay on time.
- Numerous colleges and universities, as Doctor Manning will indicate in his testimony, have banned or strictly regulated the marketing of credit cards on campuses, to address widespread complaints about tawdry practices.

(2) POLICY RECOMMENDATIONS OF U.S. PIRG TO ADDRESS ABUSIVE CREDIT CARD PRACTICES:

- **Moratorium on Late Fee Penalties:** In response to uncertainty over mail delivery following events related to the 9/11 terrorist attacks, enact legislation codifying the OCC's 12 September "encouragement" that banks voluntarily work with debtors who may pay bills late, especially if due to mail disruption. (See OCC Press release NR-2001-79).

  Specifically, we urge Congress to enact legislation placing a nationwide moratorium on the use of late payment information in credit scores or credit decisions by credit card companies for the period September-December 2001. Over this time, late payment fees should be suspended and late payments should not be used for the purpose of raising interest rates or using risk-pricing to make a consumer eligible for a less-favorable offer.
- **Prohibit Deceptive Practices:** Enact legislation (HR 1060) introduced by Rep. LaFalce and others to prohibit numerous deceptive practices, including a prohibition on raising a credit card interest rate or taking other negative action based on information unrelated to the consumer's account. We have received numerous complaints (over the last year) that banks are reviewing credit reports of existing customers and raising rates due to one or two late payments to any creditor, even if the consumer's payments to the credit card issuer are timely and the account is in good standing. This bill would also address numerous other deceptive practices, include what the Minnesota Attorney General calls "pre-acquired account telemarketing," such as in the U.S. Bank case. In our view, the provisions of Gramm-Leach-Bliley dealing with encrypted credit card numbers do not solve this problem[iii].
- **Cap Interest Rates:** Cap credit card interest rates for two years, as Rep. Sandlin has proposed in HR 3125 (12% APR) and HR 3126 (5.5% above WSJ prime). These laudatory bills should be amended to make explicit that penalty interest rates would also not be allowed.
- **Improve Disclosures:** Enact the omnibus LaFalce bill (HR 1052) calling for better credit card disclosures, banning unfair practices and restricting certain college student marketing. A similar, overlapping bill with positive features is Rep. Roybal-Allard's proposal (HR 2032).

- **Require A Minimum 30 Days to Pay Credit Card Bills and Base Late Payments On Postmarks:** Enact legislation requiring a minimum 30 days to pay a credit card bill and relating an on-time payment to the postmark. This year, legislation requiring a minimum 30 days for bill payment has been filed by Rep. Pascrell (HR 296). In the past "not late if postmarked by due date" bills have been filed by Rep. Hooley, (HR 3477, 1999) and former Rep. Andy Jacobs, (HR 1537, 1995) and current Rep. John McHugh, (HR 1963, also in 1995).
- **Ban Mandatory Pre-Dispute Arbitration:** Enact legislation proposed in 1999 by Rep. Gutierrez (HR 2258) banning pre-dispute mandatory arbitration in consumer contracts, including credit cards.

In addition, U.S. PIRG concurs with the strong recommendation today of Consumers Union that the Congress reject unnecessary, over-reaching, unfair bankruptcy reform aggressively sought by the credit card industry in this Congress and currently in conference committee. In addition to the bill's general manifest harshness and its intended elimination of a critical safety net during uncertain economic times, the bill's nominal credit card disclosures are deficient and unacceptable, as Consumers Union points out in detail.

(3) ABUSIVE CREDIT CARD INDUSTRY PRACTICES: RESULTS OF A PIRG SURVEY

In April 2001, the PIRG's released a major report, *The Credit Card Trap: How To Spot It, How To Avoid It*. The report included a detailed study of the worst credit card practices and along with a detailed fact sheet called the "Road Map To Avoiding Credit Card Hazards," <http://www.truthaboutcredit.org/roadmap.pdf>, is available on the Internet at <http://www.truthaboutcredit.org>. Without objection, I would like to enter the roadmap into the record of the hearing as an appendix to my testimony today.

The following are the key findings of a survey of 100 credit card offers conducted by the state PIRGs in summer 2000 and included in "The Credit Card Trap[iv]."

(A) Key Findings of PIRG's "The Credit Card Trap" Survey

I. Terms and Conditions Are Worsening

In a survey of 100 credit card offers, the State PIRGs found that:

- **The average penalty annual percentage rate (APR) was 22.84%, eight points higher than the average APR for purchases, and is triggered by as little as one late payment or a late payment to another creditor.**

The average penalty APR (the APR for accounts that are delinquent) was 22.84%, nearly eight percentage points higher than the average APR for purchases.

That increase is especially concerning because credit card companies may charge the penalty APR if a single payment is even one day late or arrives later than a specified time on the due date. Credit card companies may also charge a penalty APR if the creditor finds that there is a problem with a cardholder's payment pattern on other debts. Once a penalty APR is assessed, it may remain in place permanently or for a particular amount of time.

- **The average late payment fee was $27.61, and fees ranged from $15–$35.**

All cards surveyed assessed late payment fees, which ranged from $15 to $35 and averaged $27.61. Consumers are paying more and credit card companies are reaping more profit from late fee income than ever before. Income from late fees has risen for three reasons:
(1) the average late fee has more than doubled since 1992, when the average was $12.53, and fee amounts continue to grow;
(2) companies have decreased the amount of time between when a bill is mailed and payment is due; and
(3) nearly two-thirds of companies have eliminated leniency periods, the time after a payment's due date before a late fee is assessed.

- **The average grace period was 22.6 days. Five cards had no grace period at all.**

The average grace period was 22.6 days. Only one card surveyed had a grace period of 30 days, and five (all from the same company) had no grace period at all. Grace periods are rapidly decreasing in length as credit card companies realize that shorter grace periods bring in more profit. In addition, a grace period usually does not apply if a balance is carried from month to month.

- **The average over-the-limit fee was $27.61, and fees ranged from $15–$35.**

All 100 cards surveyed charged over-the-limit fees to cardholders who exceeded their credit limits by as little as one dollar. Those fees ranged from $15 to $35, and averaged $27.61. The State PIRGs' survey found only one company that charged a fee of less than $20. In addition, a punitive APR increase often accompanies the assessment of an over-the-limit fee, worsening the financial impact on consumers.

- **Minimum payments are decreasing, bringing in more money for credit card companies.**

Credit card companies are raising profits by lowering minimum payments from the former industry standard of 5% of the unpaid balance to as low as 2%. As a result, consumers who pay only the minimum each billing cycle stay in debt longer and pay more interest.

B. Marketing Practices Are Misleading and Deceptive

- **Credit card companies use low, short-term "teaser rate" introductory APRs to mask higher regular APRs. The average introductory APR was 4.13%, which jumped 264% to an average regular APR of 15.04%.**
The introductory APR is one of the primary tools used to market a card, and it usually appears in large print on the offer and envelope. Of the 100 card offers surveyed, 57 advertised a low average introductory APR of 4.13%. Within an average of 6.8 months, the regular APR shot up

264% to an average regular APR of 15.04%. The post-introductory APR, as well as the length of the introductory period, were not prominently disclosed.

- **Important information is disclosed only in the fine print of the offer.**
  For example, the fine print of most offers states that if an applicant does not qualify for the offered card, s/he will receive a lower-grade card, which usually has a higher APR and punitive fees (a practice called "bait and switch"). The fine print is easy to overlook, and as a result, a consumer may receive a card that s/he did not want.

- **Free does not mean free.**
  The "free" offers that are advertised with many cards are not usually as impressive as they appear. Most have significant restrictions or hidden costs, such as enrollment fees or expiration dates.

- **Companies are failing to disclose the actual APRs of cards.**
  Increasingly, credit card companies are quoting a range of APRs in offers rather than a specific APR, a practice called "tiered" or "risk-based" pricing. These ranges are frequently so wide as to be utterly useless to consumers. For example, Providian National Bank's Aria card has a range of 7.99% (for "preferred" customers) to 20.24%. As a result, applicants don't know what APRs they will get until they receive their cards.

- **"Fixed" rates may not be fixed at all.**
  Credit card companies play on consumers' common misconception of the term "fixed rate." Though companies imply that a fixed rate will not increase for the life of the card, companies actually may increase fixed rates with as little as 15 days notice to cardholders.

- **Fine Print**
  Fees for cash advances, balance transfers, and quasi–cash transactions such as the purchase of lottery tickets significantly raise the cost of these transactions. But the terms governing these transactions are buried in the fine print, where consumers can easily miss them. Minimum fees, also stated only in the fine print, allow credit card companies to guarantee themselves high fee income regardless of the transaction amount.

C. Marketing to College Students is Too Aggressive

Having saturated the working adult population with credit card offers, credit card companies are now banking on a new market: college students. Under regular credit criteria, many students would not be able to get a card because they have no credit history and little or no income. But the market for young people is valuable, as industry research shows that young consumers remain loyal to their first cards as they grow older. Nellie Mae, the student loan agency, found that 78% of undergraduate students had credit cards in 2000. Credit card companies have moved on campus to lure college students into obtaining cards. Their aggressive marketing, coupled with students' lack of financial experience or education, leads many students into serious debt.

The State PIRGs surveyed 460 college students within the first month of either the fall or spring semester of 2000–2001. The key findings include:

- Two-thirds of college students surveyed had at least one credit card. The average college student had 1.67 credit cards.
- 50% of students obtained their cards through the mail, 15% at an on-campus table, and 10% over the phone.
- 50% of students with cards always pay their balances in full, 36% sometimes do, and 14% never do.
- 48% of students with one or more cards have paid a late fee, and 7% have had a card cancelled due to missed or late payments.
- 58% of students report seeing on-campus credit card marketing tables for a total of two or more days within the first two months of the semester. Twenty–five percent report seeing on-campus tables more than five days.
- One-third have applied for a credit card at an on-campus table. Of these, 80% cite free gifts as a reason for applying.
- Only 19% of students are certain that their schools have resources on the responsible use of credit. Three out of four of these students (76%) have never used these resources.

(4) BRIEF PROFILE OF THE CREDIT CARD INDUSTRY:

Though interest rates fell sharply in the early 1990s after twenty years of relative stability, the cost of credit has risen dramatically since then.[v]

In its 1999 *Annual Report to Congress* on credit card pricing, the Federal Reserve Board acknowledged that "credit card pricing . . . involves other elements, including annual fees, fees for cash advances, rebates, minimum finance charges, over-the-limit fees, and late payment charges."[vi] The report also notes that, in the past, card issuers offered one interest rate for all customers. In recent years, however, issuers have begun to offer a range of interest rates, with the specific rate offered to a consumer dependent on that consumer's particular credit risk and usage patterns. Finally, the report notes that issuers have tried to make their cards more attractive by offering low introductory rates, especially on balance transfers, and by offering affinity cards, such as cards with airline mileage programs or cash rebates.[vii]

Credit card companies have increased the cost of credit by decreasing cardholders' minimum monthly payments, increasing interest rates, and piling on enormous fees. In recent years, credit card companies have decreased the minimum percentage of the balance that cardholders must pay in order to remain in good standing. Today, most companies require a minimum monthly payment of only 2% or 3% of the outstanding balance. As a result, cardholders who choose to pay only the minimum each month take longer to pay off their balances, paying more interest in the process.

Credit card companies' profits nearly tripled from 1995 to 1999, jumping from $7.3 billion to $20 billion. The industry's widespread adoption of costly terms and conditions helped lead to this massive increase in profits. Some of the newest conditions companies have imposed on consumers include:

- increased late payment fees,
- significant annual percentage rate (APR) increases after only one or two late payments,

- increases in a consumer's APR when her standing with other creditors declines,
- increased APRs for cash advances, decreased grace periods, and
- decreased minimum monthly payments.

In 2000, fee income accounted for 25% of credit card companies' total income, and between 1995 and 1999, total fee income increased by 158%, from $8.3 billion to $21.4 billion.[viii]

The rising cost of credit is contributing to an increase in average personal debt. In 2000, the average credit card debt for Americans who carry a balance reached $5610, and increase of nearly one-third since 1995.[ix]

Consumers file for bankruptcy to bring enormous debts under control. The typical Chapter 7 bankruptcy filer has high credit card debts-in 1996, $17,544 in credit card debt and an annual after-tax income of $19,800.[x] From 1996-2000, revolving debt, such as that incurred by the use of credit cards, accounted for about 20% of total household debt, according to the Federal Reserve.

(5) DETAILED DISCUSSION OF SOME OF THE WORST DOCUMENTED ABUSES:

Providian Bank:

In June 2000, the San Francisco District Attorney and OCC imposed civil penalties and restitution requirements of a minimum of $300 million on Providian Bank. Some observers will say that Providian's recent well-publicized market value crash proves that it was aberrant and flew too close to the sun, therefore nothing more needs to be done. In our view, Providian's recent charge-off problems and subsequent stock market crash are due to its business model of targeting risky applicants, but its credit card marketing practices are not atypical of an industry that still needs to be reined in.

According to the OCC Fact Sheet on the Providian settlement, Providian claimed consumers were guaranteed better rates than they were actually offered and were coerced into purchasing mandatory credit protection insurance for $156/year on cards that were otherwise marketed as free of annual fees. The credit protection product also had numerous loopholes and exceptions, detailed in the footnoted fact sheet.

> In marketing this product, the bank did not adequately disclose that, although there was technically no annual fee, the consumer was required to purchase Credit Protection at $156 a year. If, after receiving a bill for the Credit Protection, the consumer complained, the bank informed the consumer that the Credit Protection was mandatory. If the consumer insisted that they did not want the Credit Protection, the bank informed the consumer that the only alternative was for the consumer to pay an Annual Fee. Thus, in order for the consumer to receive a card with no Annual Fee, the consumer had to pay for even more expensive Credit Protection.[xi]

Direct Merchants Bank:

According to the OCC Fact Sheet on its settlement with Direct Merchants Bank, imposing civil penalties of over $3 million, many consumers were switched from a favorable to a less favorable, sub-prime card: "In some mailings, over 50% of consumers who responded were downsold and required to pay the $79 processing fee[xii]."

U.S. Bank:

In 1999, U.S. Bank entered a multi-million settlement with the Attorney General of Minnesota over its practice of allowing a telemarketer, Memberworks, to contact credit card holders and pitch a series of products to them on a negative option basis. The bank reportedly received a multi-million dollar commission. Consumers who thought they were receiving "free trial offers" in fact would have their credit cards billed unless they called and cancelled, although the consumers themselves had not given the telemarketer their account number—U.S. Bank had.

As the Minnesota Attorney General points out in a subsequent complaint against a mortgage company, Fleet Bank, the practice of billing consumers who have not provided their account numbers is a troubling one that changes the whole dynamic of selling.[xiii] The Attorney General, Mike Hatch, describes the practice as "pre-acquired account telemarketing."

> Other than a cash purchase, providing a signed instrument or a credit card account number is a readily recognizable means for a consumer to signal assent to a telemarketing deal. Pre-acquired account telemarketing removes these short-hand methods for the consumer to control when he or she has agreed to a purchase. The telemarketer with a pre-acquired account turns this process on its head. Fleet not only provides its telemarketing partners with the ability to charge the Fleet customer's mortgage account, but Fleet allows the telemarketing partner to decide whether the consumer actually consented. For many consumers, withholding their credit card account number or signature from the telemarketer is their ultimate defense against unwanted charges from telemarketing calls. Fleet's sales practices remove this defense.[xiv]

First USA Bank

In 1999, according to a Freedom of Information request filed by U.S. PIRG with the OCC, the agency received as many complaints against First USA as it did against the next nine most-complained about credit card issuers combined. Although, as far as we know, the OCC did not pursue civil penalties against or impose sanctions against First USA, several private class actions were also recently brought against the company. Since 1999, many of the complaints we have received and that the media reported on concerned First USA allegedly billing consumers late who claimed that they had paid on time[xv]. Other cases have alleged that the company engages in bait-and-switch tactics on introductory interest rates.[xvi]

(6) CONCLUSION

Due to the limited time available, I have had not been able to touch on numerous other issues we have with the credit card industry. In addition to its unfair marketing and billing practices, its sloppy record-keeping and credit application decision-making also results, for example, in increased identity theft. Consumers who are victims of identity theft may spend years clearing their good names[xvii].

We urge the committee to review U.S. PIRG commends the committee for holding this important hearing. We hope that we have provided you with adequate information to support the need for action by the Congress to rein in the credit card industry's most unfair and abusive practices.

ENDNOTES

[i] June 28, 2000, Statement of Comptroller of the Currency John D. Hawke, Jr.

[ii] Fact Sheet Regarding Settlement Between the OCC and Direct Merchants Bank, 3 May 2001

[iii] For additional information and a detailed discussion, see my testimony before the Committee on Commerce's Subcommittee on Commerce, Trade and Consumer Protection <http://www.house.gov/commerce/hearings/04032001-154/Mierzwinski242.htm> 3 April 2001.

[iv] See <http://www.truthaboutcredit.org>

[v] "The Profitability of Credit Card Operations of Depository Institutions: An Annual Report by the Board of Governors of the Federal Reserve System, submitted to the Congress pursuant to Section 8 of the Fair Credit and Charge Card Disclosure Act of 1988." June 1999.

[vi] Ibid.

[vii] Ibid.

[viii] "Fee Income." July 2000. www.cardweb.com/cardtrak/pastissues/july00.html.

[ix] "Many Americans Charge Wisely, but More Carry Deeper Debt." Lucy Lazarony, www.bankrate.com.

[x] "Recent Trends in Bank Credit Card Marketing and Indebtedness." Stephen Brobeck , Consumer Federation of America, July 1998.

[xi] OCC's Providian Fact Sheet, http://www.occ.treas.gov/ftp/release/2000%2D49d.doc 28 June 2000

[xii] OCC's Direct Merchant's Fact Sheet, <http://www.occ.treas.gov/interp/ea/fact%20sheet2001%2D24.doc> 3 May 2001.

[xiii] For additional information and a detailed discussion, see my testimony before the Committee on Commerce's Subcommittee on Commerce, Trade and Consumer Protection <http://www.house.gov/commerce/hearings/04032001-154/Mierzwinski242.htm> 3 April 2001.

[xiv] 28 December 2000, Complaint of State of Minnesota vs. Fleet Mortgage, see <http://www.ag.state.mn.us/consumer/news/pr/Comp_Fleet_122800.html>

[xv] See transcript of ABC Nightline, with Ted Koppel, 31 August 1999.

[xvi] See, eg, <http://www.seattleclassaction.com/achievmt.htm#first%20usa> where on 15 June 2001 a settlement for "$50 million plus over $36 million in benefits from other settlement related offers," by the firm of Keller Rohrback.

[xvii] See "Nowhere To Turn: A Survey of Identity Theft Victims," CALPIRG, USPIRG and the Privacy Rights Clearinghouse, May 2000, for a detailed summary of PIRG's platform on identity theft. <http://www.calpirg.org/consumer/privacy/idtheft2000/idtheft2000.pdf>

A Road Map to Avoiding Credit Card Hazards

Credit card companies are flooding us with card solicitations, deceiving us with misleading offer terms, and gouging us with higher-than-ever fees. As a result, consumers are sinking further into high-cost credit card debt.

What should you be on the lookout for?

How can you avoid being ripped off?

MASSPIRG
EDUCATION FUND
Telephone 617-292-4800

www.truthaboutcredit.org

A Road Map to Avoiding Credit Card Hazards

As credit card companies intensify their marketing campaigns to boost profits, more and more glossy credit card offers are coming at us fast and furious. The average household receives eight credit card offers each month, and students, who often have no regular income, are encouraged several times a week by posters, flyers, and on-campus marketers to apply for credit cards.

At the same time, credit card companies are charging interest rates as high as 40% per year. Consumers are subject to a host of unfair and deceptive terms and conditions, saddled with enormous fees, and encouraged by credit card companies to make low minimum payments so that the companies can earn more money in the form of interest. As a result, the average credit card debt for Americans who carry balances reached an all-time high of $5,610 in 2000, an increase of one-third since 1995.

As consumers struggle, credit card companies such as Providian and First USA are making bigger profits than ever. Between 1995 and 1999, thanks in part to aggressive marketing and misleading practices, companies' profits nearly tripled, jumping from $7.3 billion to $20 billion.

Accident Ahead: 10 Credit Card Traps

1. More Late Fees

Credit card companies are reaping more profit from late fee income than ever before, for three reasons: (1) the average late fee more than doubled between 1992 and 2000, from $12.53 to $27.61, (2) companies have decreased the amount of time between when they mail a bill and when payment is due, and (3) nearly two-thirds of companies have eliminated leniency periods, (the time after a payment's due date before a late fee is assessed).

2. Higher Over-the-Limit Fees

In 2000, only one card charged a fee of less than $20 to consumers who had exceeded their credit limits. The highest fee was $35. In contrast, a 1995 survey found only one bank that charged a fee of $20 or more. Many companies assess this fee to cardholders who exceed their limits by as little as $1.

3. Hidden Transaction Fees

Fees for cash advances, balance transfers, and quasi-cash transactions like the purchase of lottery tickets significantly raise the cost of these transactions. But the terms governing these transactions are buried in the fine print where consumers can easily miss them.

Currently, 55 to 60 million households (50-60% of all households in the United States) carry credit card balances. The average household carries a balance of $7000 and pays more than $1000 per year in interest and fees.

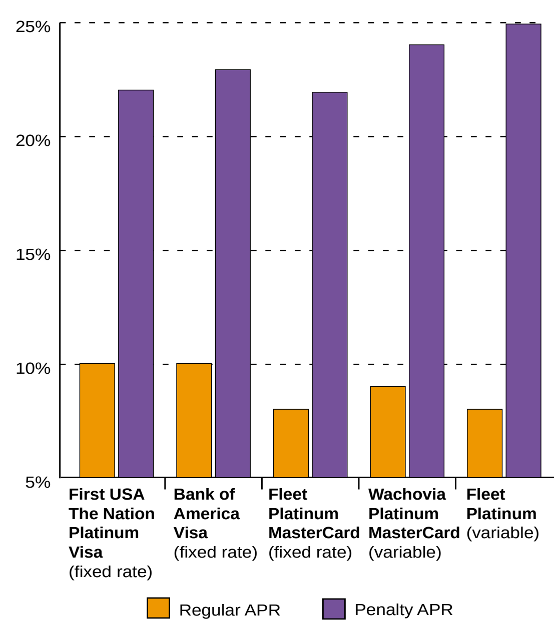
(Source: Stephen Brobeck, Consumer Federation of America)

Minimum fees, also stated only in the fine print, allow credit card companies to guarantee themselves high fee income regardless of the transaction amount. For example, if XCard has a transaction fee of 3% and a minimum of $10, a cardholder who receives a $50 cash advance will be charged the minimum, $10, which amounts to an actual transaction fee of 20%.

4. Punitive Annual Percentage Rate (APR) Increases

The average penalty APR—a higher interest rate triggered by a late or missed payment—is nearly eight percentage points higher than the average regular (non-penalty, non-introductory) APR. In 1998, by contrast, penalty APRs were an average of 4.5 percentage points higher than regular APRs.

Punitive APRs: How One Late Payment Can Cost You



Fleet Platinum MasterCard (variable rate)*

Penalty APR is 16.91 percentage points higher than regular APR

	Regular APR (7.99%)	Penalty APR (24.90%)
Total Interest Paid:	$466.73	$3,314.87
Time to Pay Off Balance:	84 months	169 months

**calculations based on a balance of $2000 and 3% monthly payments*

5. Declining Grace Periods

While grace periods (the time during which a transaction does not accrue interest) historically were a full month long, they now average 23 days. Some cards have no grace periods at all.

6. Introductory APRs

Fifty-seven percent of card offers advertised a low introductory APR. The average introductory APR was 4.13% and lasted an average of 6.8 months. But credit card companies use low, short-term introductory APRs to mask regular APRs that are an average of 264% higher. These sharp rate increases are not prominently disclosed.

7. Low Minimum Payments

Low minimum monthly payments are designed to sound attractive to consumers, but they encourage cardholders to pay more in finance charges as the length of time required to pay off a balance increases significantly. Credit card companies have decreased minimum payments in recent years from the historic industry standard of 5% to a current standard of 2% to 3%.

Always Pay More than the Minimum: It Saves You Money

Beginning Balance	APR*	Monthly Payments	Total Interest Paid	Months to Pay Off Balance
$2,000	15.04%	2%	$2,205.63	169 (14 yrs.)
$2,000	15.04%	5%	$589.74	65 (5.5 yrs.)
$2,000	15.04%	10%	$269.31	36 (3 yrs.)

**the APR of 15.04% is the average non-introductory, non-penalty APR found in the State PIRGs' survey of 100 credit card offers. NOTE: Results based on $20 minimum payment or the percent, whichever is greater.*

8. "Fixed" APR

Despite their name, so-called "fixed" interest rates can be raised with as little as 15 days notice to cardholders.

9. "Bait and Switch" Credit Card Offers

Direct mail credit card offers generally advertise the premium card the bank has to offer, yet the fine print includes the caveat that the company can substitute a lower-grade, non-premium card if the applicant does not qualify for the premium card. The lower-grade card costs more and offers less attractive terms, facts which are rarely mentioned in the official disclosures of the offer.

10. Tiered Pricing

This new, anti-consumer practice is catching on quickly with credit card companies. In an offer, the company quotes a meaninglessly-wide range of possible APRs: Providian's Aria card, for example, quotes a range of 7.99% to 20.24%. The company then assigns an APR to each applicant once the card is issued, based on the applicant's credit history. Consumers are thus being denied the right to know the terms of a credit card before they accept an offer.

Consumers at the Wheel: Navigating Credit Card Offers

1. Shop around before accepting a credit card offer. Terms and conditions vary widely, so it's important to compare offers–for example, regular APRs range from 7.99% to 30.25%. Key fees and terms to compare:

- **regular (non-introductory) APR**: look for APRs near or below 15.04%
- **grace period:** at least 25 days
- **late payment fee:** no higher than $20
- **annual fee:** look for cards with no annual fee (most do not have annual fees)
- **penalty APR:** look for cards that don't assess penalty APRs, or if unavoidable, penalty APRs no higher than 20% and in place for a limited period of time only (for example, until two consecutive payments are made on time)

2. Read the fine print–disclosure charts and surrounding text–carefully and thoroughly before accepting a card. Many punitive fees are stated only in the fine print below the disclosure chart.

3. Carry only one or two major credit cards, and avoid using the full available credit line. Remember that credit card purchases are more expensive than cash or check purchases once interest and other fees are included. Use credit cards sparingly and wisely.

4. Pay off all balances in full every billing period, or pay as large a portion of the remaining balance as possible, making the largest payments toward the card with the highest interest rate. Always pay more than the minimum, if possible!

5. Reduce the number of direct mail credit card solicitations you receive by calling 1-888-5-OPTOUT. This will remove your name from pre-screening lists at the three major credit bureaus.

6. Seek credit counseling as soon as financial problems arise. To locate a free or low-cost credit counseling agency near you, call 1-800-388-2227 or visit www.nfcc.org. For one-on-one counseling over the phone, call 1-800-680-DEBT, or visit www.myvesta.org on the Internet.

7. Check your credit reports at least once a year for errors. Correct any errors immediately. Consumers in CO, GA, MA, MD, NJ, and VT are entitled to one free report per bureau per year; consumers in other states may have to pay up to $8 per report. To receive copies, call:

Equifax	1-800-685-1111
Experian	1-888-397-3742
TransUnion	1-800-888-4213

8. If you believe you are the victim of unfair interest rate charges, late fees or other penalties, or deceptive marketing, and the credit card company fails to address your complaint, file complaints with your state Attorney General's office and the national Office of the Comptroller of the Currency:

- **visit:** www.occ.treas.gov/customer.htm
- **call:** 1-800-613-6743, (M-F 9am-3:30pm CST)
- **e-mail:** Customer.Assistance@occ.treas.gov
- **fax:** 1-713-336-4301 or;
- **mail:** Customer Assistance Group
  1301 McKinney Street, Suite 3710
  Houston, Texas 77010

9. Use the credit calculator, available online at www.truthaboutcredit.org, to calculate how much you need to pay each month to pay off your balance within the time frame you've specified. The calculator can also tell you how long it will take to pay off your balance if you continue to pay the same amount each month.

10. Know your financial means and limitations, and don't spend beyond your means. Create a budget that takes into account your average credit card payments each month, and stick to it.

Road Signs: Terms You Should Know

Annual Percentage Rate (APR): The amount of interest assessed on an outstanding credit card balance. For billing purposes, the APR is usually divided into periodic (monthly or daily) rates. A variable APR, often referred to as "prime + x%," is tied to an economic market index such as the Prime Rate; thus it fluctuates with the economy. A fixed APR does not fluctuate with the market; rather, it is set by the credit card company. The company can change it at any time with as little as 15 days notice to cardholders.

Penalty APR: A much higher, punitive interest rate that credit card companies may apply to cardholders who have exceeded their credit limits, made one or more late payments, or are otherwise in "bad standing." Penalty APRs are, on average, about 52% higher than regular APRs.

Credit Limit (or Line): The maximum, cumulative amount of money a consumer may borrow from a credit card company. Credit limits are set based on a consumer's credit history; however, this does not necessarily mean that the limit is one that the consumer can afford.

"Pre-Approved": This term is misleading and does not mean that a consumer is guaranteed to receive the card for which s/he has applied, or any card at all. It merely means that the consumer was chosen to receive the offer because s/he met some initial criteria of creditworthiness.

Grace Period: The time during which a transaction does not accrue interest. Grace periods range from 0-30 days, with an average of 23 days, and they often apply only to purchases, not cash advances or other transactions. On most cards, grace periods only apply if the previous month's balance is paid in full and on time.

Transaction Fee: Cardholders are nearly always assessed additional fees for transactions other than purchases (such as cash advances). The fee is usually a percentage of the transaction, but a minimum fee may apply. Transaction fees may or may not be capped.

Quasi-Cash Transaction: A transaction similar to cash, such as the purchase of lottery tickets or betting chips. These are usually subject to transaction fees.

Cash Advance: An immediate cash loan from a consumer's credit card account. Cash advances may carry a higher APR than purchases, and often are assessed transaction fees. Grace periods may not apply to cash advances.

Balance Transfer: At a cardholder's request, credit card company A will pay the balance the cardholder has with company B, and the balance will then be put onto the cardholder's account with company A. Consumers usually transfer balances when applying for a new card, to take advantage of low introductory APRs. Balance transfers usually incur transaction fees.

Schumer Box/Disclosure Chart: The disclosure chart contains the most important information of the offer (although not all important information is included in it). By law, the disclosure chart must contain:

1. the actual APR (that is, what the APR will be once the introductory period ends)
2. the formula for the APR, if the rate is variable
3. the length of the grace period
4. the amount of the annual fee, if any
5. the minimum finance charge
6. any transaction fees (for example, fees for cash advances)
7. the method of computing the purchase balance for each billing period
8. late payment fees, and default or delinquency fees
9. over-the-limit fees

Methods of Computing Balances: Methods used vary widely and have a significant effect on the cost of credit. There are three main methods:

1. Average Daily Balance. This is the most common computation method. The outstanding balances for each day in the billing cycle are added, and this total is divided by the number of days in the billing cycle. New purchases may or may not be added, depending on the terms of the card. If the terms state that new purchases are included, purchases made during the billing cycle will raise a cardholder's balance and may increase the finance charge. Once the average daily balance is calculated, interest is assessed each day at the daily rate, which is the annual percentage rate divided by 365.

2. Adjusted Balance. Payments or credits that are received during the current billing period are subtracted from the balance at the beginning of the billing cycle. New purchases are not included in the calculations. For example, if a cardholder's beginning balance was $2000, and s/he made a payment of $500 during the billing period, s/he would only be charged interest on the remaining $1500. This is generally the most consumer-friendly computation method.

3. Two-Cycle Balance. To obtain this balance, credit card companies add together the average daily balances for the current and the previous billing cycles. The average daily balances for the current billing period may or may not include new purchases. The two-cycle balance method is the least consumer-friendly method of balance computation.

Secured Credit Card: This type of credit card is linked to a bank account, allowing a credit card company to deduct payment if the cardholder fails to pay. To obtain a secured card, a consumer must deposit an amount of money equal to the credit limit of the card into a bank account. This account is separate from any other accounts the consumer may have.

Debit Card: Debit cards are not credit cards; rather, they deduct money directly from the cardholder's bank account whenever a transaction is made with the card. Consumer protections guaranteed by law to credit card users often do not apply when a debit card is used.

School Zone: College Students and Credit Cards

Having saturated the working adult population with credit card offers, credit card companies are now banking on a new market: college students. Under regular credit criteria, many students would not be able to get a card because they have no credit history and little or no income. But the market for young people is valuable, as industry research shows that young consumers remain loyal to their first cards as they get older. Nellie Mae, the student loan agency, found that 78% of college students had credit cards in 2000. Credit card companies have moved on campus to lure college students into obtaining cards. Their aggressive marketing, coupled with students' lack of financial experience or education, leads many students into serious debt.

Warning Signals

- Undergraduates with credit cards carried an average balance of $2,748 in 2000. (Source: Nellie Mae)
- Half of all college students with credit cards don't pay their balances in full every month.
- 58% of college students reported seeing on-campus credit card marketing tables for two or more days within a one month period at the beginning of the semester.
- On a test of personal finance skills administered to high school seniors, students averaged a score of 57%, an F on any grading scale. Only 5% of the seniors scored a C or better. (Source: Jump Start, www.jumpstart.org)

"Children, dogs, cats, and moose are getting credit cards."

Alan Greenspan, Federal Reserve Chairman, in a 1999 address to the Senate Banking Committee

www.truthaboutcredit.org

This brochure was made possible in part through grants from the Consumer Federation of America Foundation, Consumers Union, the Washington State Attorney General's Office, and the Consumer Protection Education Fund established pursuant to the settlement of a fifty state enforcement action against Sears, Roebuck and Co.