10 Things Your Credit Card Company Won't Tell You

By Nancy Nall Derringer
January 3, 2006

1. "We're just waiting for you to screw up."
Many things can bump your credit card interest rate into the red zone, but nothing faster than what's called "universal default." You can make all your credit card payments religiously and for a long time, but fall behind on your electric bill and, suddenly, you're a deadbeat — who will be charged accordingly. Rates can change on short notice, from low and reasonable to 25 percent or more.

Card companies claim that what they're doing is managing risk. Consumer groups disagree, charging that it's all about profit, since many people in universal default aren't deadbeats by any reasonable definition. Say, for example, you're disputing a charge on a medical bill or waiting for an insurance snafu to resolve itself. If a billing clerk kicks it to collections, you're in universal default. Or suppose your credit score drops — a common event that may be entirely unrelated to your bill-paying behavior. That's also likely to push your interest rate higher.

The best way to avoid the problem is the most obvious: Pay your bills on time. Bankrate.com, a consumer-lending education Web site, further advises that if you have a disputed bill, resolve it before it reaches collection status.

2. "When it comes to identity theft, we're part of the problem."
Identity theft victim Tony Sciulli of Santa Barbara, Calif., says it started with a forged credit application — a $3,000 balance was mysteriously transferred to a new card in his name, followed by a ready-made check billed to one of his other cards. What can you do to avoid this sort of low-tech thievery? Buy a shredder, and minimize the credit applications coming to your house by registering at OptOutPrescreen.com.

But paper solicitations are only the tip of the iceberg. As Internet security expert and author Bruce Schneier warns, "Data about you is not under your control." He points to examples such as the May 2005 case involving Bank of America and Wachovia, in which a man allegedly posing as a collection agent paid bank employees for customer data in New Jersey. (The case is still being adjudicated. The banks notified customers their data may have been compromised and offered to help watch their accounts for suspicious activity. So far, no account fraud has been reported.)

But John Hall, a spokesperson for the american Bankers association, insists that banks have "Pentagon-level security." His advice: "Monitor your accounts. Protect your passwords and your computer."

3. "Your children are our future."

It wouldn't surprise most parents to know their college-age kid can get a credit card as easily as a beer. after all, university students, however financially dependent, are adults whose earning years are just beginning, making them "good risks" for creditors. What parents might not know is the fact that card issuers are now taking that reasoning a step further: "The big trend is marketing to high school students," says Robert E. Manning, author of "Credit Card Nation" and a professor at the Rochester Institute of Technology.

Manning says most parents don't realize how early a child's name, address and other information can turn up in the databases used by card companies to market their products — or that kids as young as 16 can get cards without parental permission. "[Card issuers] know that if a kid gets in trouble, usually the parent will pay," he says.

What can parents do? Protect your child's information, and assume that all requests, however legitimate, will land it in a database somewhere. Gift cards, for instance, may offer protection if lost or destroyed — but require personal data. Manning and other experts advise teaching teens about credit well before they get their first cards and monitoring their spending as they learn to use them.

4. "Our 'freebie' rewards are anything but."
In the hypercompetitive credit card marketplace, rewards are a way for banks to target big-spending niche audiences — frequent fliers, for instance. But these programs often come with hidden catches, such as exorbitant interest rates and high annual fees, so it's important to do your homework. "[A rewards card] doesn't make financial sense for just anyone," says Manning, of the Rochester Institute of Technology.

Before signing on, figure out how much you'll have to spend to earn the incentives from a given card. If the math works out to anything less than one penny earned per dollar spent (or a mile per dollar in the case of mileage cards), then you could do better.

Also, be sure to look for the rewards that best suit your needs. For example, if you want an abundance of options, from retail goods and services to charitable donations, American Express's Membership Rewards cards let you accumulate points at the rate of a penny per dollar spent, double that at gas stations and drugstores. Or if it's air miles you're after, the United Mileage Plus Signature Visa is one card that stands out from the pack, with its 1-mile-per-dollar ratio and host of travel benefits, including upgrades.

5. "Debit cards should come with a warning: 'Use at your own risk.'"
Vicki Jacobson's college-student son, Craig, was coming home last summer from a european vacation. Arriving at the airport, unable to speak Italian and his available cash growing short, he attempted to pay for his taxi ride with a debit card. The driver ran the card three times and a credit card once, but it was unclear after each pass whether the transaction had gone through. Finally, anxious about catching his flight, Craig paid with his dwindling euros and left Italy behind. You can probably guess what happened: He was charged for that taxi ride three times on the debit card and once on the credit card. And that's when the fun really started.

Debit cards resemble credit cards in all visible ways, but they don't offer purchase protection. since they draw on a checking account, debit cards are essentially checks in plastic form. By contrast, credit cards constitute a loan — it's the bank's money, so the bank has more reason to protect it.

Craig Jacobson's experience bears that out. Months later, Vicki says the credit card charge is nearly resolved, but that they'll have to eat the three erroneous debit charges. "It can just be very difficult to penetrate the system," she says.

6. "Paid in full? Not necessarily."

Banks generally calculate interest charges in one of two ways: based on average daily balance or on something called two-cycle billing. The latter, which more card issuers are now adopting, penalizes customers who carry a balance, even if it's only on occasion.

Here's how it works: Say you start your month with a zero balance and charge an amount that you don't pay off in full at the end of the month. If your card uses the average daily balance method to calculate interest, you are charged nothing for the month you made the purchase, and interest only for subsequent months in which payment is outstanding. With two-cycle billing, interest charges begin with the day you make the purchase.

Banks defend two-cycle billing as correcting the true interest charges for credit card purchases. Ron Brooks, senior vice president in charge of card services for National City Corp., says it's a way to make sure card users pay interest should they suddenly go from being "transactors" (those who pay off every month) to "revolvers" (those who carry a balance).

Relieved to find your card uses average daily balance? Don't be. Your card provider can switch to two-cycle billing with 15 days' notice.

7. "We're accepted anywhere on the globe, but our exchange rates are from Planet Ripoff."

In recent years plastic has all but replaced the traveler's check as the preferred method for making purchases abroad. Credit cards are widely accepted overseas, and they can be used in ATMs all over the world to dispense cash in the currency of whatever country you're visiting.

But beware of hidden charges. Some banks have recently raised the rates on currency conversion from 1 percent to 3 percent. On top of that, ATM usage has its own fees attached.

Consumers union recommends studying your cards' policies on foreign-currency purchases before you leave home, then adjusting your spending accordingly. Cards issued by smaller banks, for example, may have lower fees, as do certain brand-name cards. American Express, which has long positioned itself as a card for travelers, charges a flat 2 percent.

8. "We close early on payment-due dates."

Card statements are crystal clear about what day your payment is due, but are not so forthcoming about *what time* on that due date. Some banks have triggered consumer complaints by setting a 9 a.m. deadline on the posted payment date — essentially, *before* the mail arrives.

Chi Chi Wu, an attorney with the National Consumer law Center, says that a number of class-action lawsuits have succeeded in getting most banks to push back their payment deadline to 2 p.m., the traditional banker's closing hour, a time by which most mail delivery is complete.

Even so, Tracey Mills, spokesperson for the american Bankers association, is unsympathetic: "The bill is due upon receipt. Banks have put a lot of money into giving consumers lots of options — they can pay by phone, pay online, automatic bill pay. I just don't understand why late payment is still an issue for people. Pay your bill on time. It's easy."

She has a point — if you can't allow plenty of time for U.S. mail delivery, you can always take advantage of an online or pay-by-phone option. and if you're really in a pinch, another alternative is to send your payment overnight, worth it if it means avoiding a $30 late penalty. But if you go that route, check the promised time of delivery — the standard end-of-business arrival might not do the trick.

9. "Our whims are legally binding."
You may think you've signed up for a card with terrific incentives, a low APR and just the right mix of perks and fees to suit you. But don't get too comfortable. Your card issuer can alter the terms of your once-perfect agreement at any time, as long as it provides you with advance written notice — of as little as 15 days. "The biggest secret in the credit card industry is, they're very thinly regulated," says Wu, of the National Consumer Law Center.

Consumer groups report that this practice is a particular pet peeve with credit card holders, and for obvious reasons. But the ABA's Mills takes a stab at defending the practice. "A credit purchase is an unsecured loan. it's the riskiest sort of lending we do, which is why it's expensive. The banks have to protect themselves." She adds that since credit card lending is a highly competitive marketplace, unhappy customers are almost always able to seek alternatives.

How can you protect yourself from being blindsided? In short, vigilance. "Pay attention to all the mail you get from your credit card company," Wu urges, "even if it looks insignificant."

10. "Go ahead and exceed your credit limit — we like that."
Contrary to popular belief, a purchase that puts you over your credit limit won't necessarily be declined. But you might wish it had been, since it could bump your interest rate into the stratosphere.

Lea Barker, a data-entry clerk in Oakland, Calif., found that out the hard way when she exceeded the limit on her Visa card — and her interest rate skyrocketed to 29.9 percent. The sudden increase was among the factors that ultimately pushed her into credit counseling and a debt-management plan. "I have to find another $1,000 a month to dig my way out," Barker says. "I'm looking at a second job."

Adding insult to injury, banks often levy a so-called overlimit fee against maxed-out cardholders — roughly a $30 penalty every month your balance remains above the credit limit. The ABA's Mills says that "consumers would rather deal with the fee than the embarrassment of being declined."

But consumer advocate travis Plunkett, of the Consumer Federation of America, is having none of it.

Overlimit fees, he contends, are simply another way for banks to make money at the expense of the unwary. "If [banks are] willing to accept charges [over their cardholders' limits]," Plunkett says, "then they should accept the profit that comes from the increased interest charges" and leave it at that.

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