



Consumer Federation of America



Credit Union National Association

FOR IMMEDIATE RELEASE

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CONSUMERS LACK KNOWLEDGE OF UPCOMING CREDIT CARD PROTECTIONS BUT ARE TAKING ACTION TO PROTECT THEMSELVES FROM RECENT CARD CHANGES, ACCORDING TO NEW SURVEY

Washington, D.C. – A recent survey commissioned by the Consumer Federation of America (CFA) and Credit Union National Association (CUNA) revealed that, while most consumers (61%) are aware there are new credit card protections, most (65%) don't know they take effect later this month and don't understand the specific protections Congress approved last year.

“We are especially concerned that some consumers will base their future credit card use on protections that don't exist,” said CFA Executive Director Stephen Brobeck. He noted, for example, that 36 percent of credit card users think that the new law caps late fees at \$35, while 31 percent believe it caps interest rates at 20%. The new law does neither.

The survey also revealed that a large majority of consumers who have noticed disadvantageous changes in the terms of their most frequently used credit card are taking or plan to take some kind of remedial action, most frequently using the card less frequently (69%) and/or paying off the remaining balance faster (62%).

“We are encouraged that 85 percent of consumers reported planning or taking action when aware of a rate hike, new fee, lower credit limit, fewer rewards, or other disadvantageous terms,” said CUNA Chief Economist Bill Hampel.

The survey was conducted for CFA and CUNA by Opinion Research Corporation, which surveyed a representative sample of 1013 adult Americans January 28-31 last month. The margin of error is plus or minus three percentage points. All differences revealed by the survey and reported in this release are statistically significant (0.05 level) unless otherwise noted.

NEW CREDIT CARD LAW PROVIDES SUBSTANTIAL NEW PROTECTIONS

Most provisions of the credit card law, which was approved by Congress and signed into law by President Obama last year, will be implemented this-coming February 22. The law requires card issuers to:

- Provide at least 45 days notice to most customers before making significant changes to their card such as hiking the rate or fees.
- Inform customers on their monthly bill how long it will take to pay off their balance if they make only minimum payments.
- Mail a monthly bill at least 21 days before payment is due and not use holidays and weekends as an opportunity to levy late fees.
- Apply payments to the highest interest balances first.

And the law prohibits card issuers from:

- In most cases, increasing the card's interest rate in the first year of the account.
- In most cases, applying any increase in rates to old charges.
- Charging an over-the-limit fee unless the customer affirmatively authorizes over-the-limit charges.
- Issuing cards to consumers under 21 years of age unless they show they have the ability to make payments or get a co-signer.
- Using double-cycle billing where interest charges are imposed on purchases that have already been paid off.

More detail on these protections, and their exceptions, can be found the Federal Reserve Board website [<http://www.federalreserve.gov/consumerinfo/wyntk/creditcardrules.htm>]

MOST CONSUMERS ARE AWARE OF, BUT DON'T UNDERSTAND, THE NEW PROTECTIONS

About three-fifths of consumers (61%), and 70 percent of credit card users, are aware there are new protections. While only about half of all young adults (18-34 years) and lower-income households (under \$25,000 annual income) are aware of the protections, this lack of knowledge probably reflects in part the fact that, among various age and income groups, these two groups are least likely to have and use cards.

But consumers are far less knowledgeable about specific protections in, or not in, the new law. The survey asked consumers aware of the new law whether each of six protections is part of the law. Even among the 61 percent of those aware of the new law, there was low awareness. Less than half (of those aware of the law) are aware of two new protections – requiring credit card companies to apply monthly payments first to the higher interest rate debt that may be owed (44%), and prohibiting over-the-limit fees without specific consumer authorization of over-the-limit transactions (42%).

Of greater concern to CFA and CUNA is that sizable minorities (of those aware of the law) incorrectly believe that other protections are in the law: 42 percent think that the law prohibits interest rate hikes on one card because of another card's payment history; 37 percent think late fees are capped at \$35; and 30 percent think interest rates are capped at 20 percent. The new law does not include these three protections.

MOST CONSUMERS WHO ARE AWARE OF RECENT CHANGES MADE BY CARD ISSUERS ARE PLANNING OR TAKING ACTION

Of those respondents who use credit cards, half (50%) have noticed some type of recent change in terms by the card issuer. Just over a quarter of those using cards (28%) report being notified of an increase in their interest rate. The other three most likely changes noted by card users were a new fee or fees (18%), an increase in existing fees (18%), or a reduction in rewards (17%).

“Considering all the credit card mailings they typically receive and the complexity of some of these disclosures, it's a positive sign that many consumers have noticed the changes,” said CUNA's Hampel.

The CUNA/CFA survey also indicates consumers are taking or planning action in response to recent changes by the card issuers. Nearly seven out of eight (85%) of credit card users who reported a change in terms are doing so. That group of consumers says the two most likely actions are to use the card less frequently (69%) and to pay off the remaining balance faster (62%). Other frequently mentioned responses are to stop using the card (45%) and to use another card (34%). Less frequent reactions are to cancel the card (22%) or apply for a different card (12%).

“The new rules are leading to changed behavior by card companies, and consumers would be very well advised to pay particular attention to terms and conditions, fees and rates on their cards to make sure they have the best deal,” said Hampel. “Our data show more consumers are turning to credit unions’ credit cards, which typically do offer lower rates and compare more favorably than other issuers’ cards.”

THE TWO KEY TIPS FOR USING CREDIT CARDS PRUDENTLY

The most important advice from CFA and CUNA to credit card users is to make monthly payments on time and try hard to pay down, and pay off, balances on all cards.

- Just one late payment can trigger not only a late fee but also an interest rate hike on the card, an interest rate hike on other cards, and a lower credit score. “Some consumers just don’t understand how important it is to make their credit card payments on time,” noted CFA’s Brobeck.
- Research suggests that most consumers think, when they acquire a credit card, that they will pay off the entire balance every month but only about half do. “Because credit cards can be relatively expensive and easy to use, consumers should try hard to use their credit card as a charge card,” said CUNA’s Hampel. “If they can’t, they should consider shifting to another form of payment such as a debit card, or to a credit card with more favorable rates and terms,” he added.

Credit Union National Association (CUNA) is the primary national trade association for the country’s 8,000 state and federally chartered credit unions, which are not-for-profit financial cooperatives serving more than 92 million Americans.

The Consumer Federation of America is a non-profit association of more than 280 groups that, since 1968, has sought to advance the consumer interest through research, advocacy and education.