Bank Credit Card Practices Prior to CARD Act Implementation

Arbitrary Interest Rate Increases:
For no apparent reason, even excellent credit card customers who carry a balance have been subject to costly interest rate increases on future balances. Consumer Actions' 2009 Credit Card Survey showed some card issuers boosted purchase and cash advance rates by up to 3 percentage points between March and June of this year.

- Bank of America Platinum Plus Visa Card - increase of up to 46% in the purchase rate.
- Citigroup - hiked the purchase rate on three of its cards by 26% to 42%.
- Capital One - increased its penalty (default) rate by 6.25%, bringing the rate to 29.4% on its Standard Platinum and No Hassle Miles cards.
- Chase - penalty rate jumped almost three points to (29.99%) on it Perfect MasterCard.

There has been no change in the prime rate that might have accounted for these rate increases this spring. While the new credit card law sets real limits on card issuers' ability to charge more for items already purchased, it does not prevent card companies from hiking interest rates to unlimited levels in the future.

What's more, if a card issuer chooses to boost the rate based on the card holder's relationship with another lender there is no way for consumers to adequately protect themselves. This is where a consumer financial watchdog - the Consumer Financial Protection Agency (CFPA) - could step in to prevent arbitrary and abusive behavior by card issuers.

Fees
In August, *American Banker* reported that Citigroup has started adding annual fees if the cardholder doesn't spend enough. The report said that the fee is between $30 to $90, unless the cardholder spends a specific amount – usually $2400.

Consumer Acton's credit card survey found fees spiked between March and June of this year, long before the new law takes effect. Balance transfer fees jumped to as high as 5% in recent months.
- Bank of America's balance transfer fee went from 3% to 4% (Platinum Plus Cash Rewards & Platinum Plus Visa)
- Chase's balance transfer fee hit 5% in August
- HSBC charges some customers a $49 'processing' fee *and* a $79 annual fee, depending on creditworthiness, in addition to charging some card holders as much as 31.99% for a penalty rate.

A consumer financial watchdog could monitor these fees hikes to make sure they are not unfair or abusive.

Universal Default
Lenders insist that they don't practice it, but language in cardholder agreements sure seems to say they do. In this year's Credit Card survey, Consumer Action found fine print online for US Bank that states that the APR may increase "if you fail to make timely payments to another creditor as reflected in your credit report." However, US Bank maintains that they "do not have and have never had universal default."

HSBC's fine print reads "we have the right to change your APR, fees, other terms anytime for any reason including… use of your credit line with us or any creditor, or our financial return." But HSBC says it "does not increase rates on a customer's account solely because a customer has defaulted with another creditor."

Under the new credit card law, limitations will be placed on the practice of raising a cardholder's rate based on the payment history with another lender – but only for existing balances. Card issuers will be free to increase card holders' future interest rates for this reason. The CFPA could prohibit issuers from increasing interest rates for dubious reasons, such as universal default.

Cancellations without Notice
According to the *Wall Street Journal*, customers with HSBC, Citigroup, Bank of America, J.P. Morgan Chase, and American Express have been reporting card cancellations occurring without warning. Both Chase and Bank of America are reported to be closing down inactive accounts. Even worse, consumers can have their cards canceled, but not be notified of the cancellation until 30 days later. A Consumer Financial Protection Agency could require banks to give consumers advance notice of cancellations.

Minimum Payment Increases without Notice
Hikes in minimum payments are not addressed by the new credit card law, thus allowing lenders to more than double a cardholder's minimum monthly payment. This year, Chase raised the required minimum payments from 2% per month to 5% of the balance for some cardholders. This hefty hike has caused extreme financial distress for some consumers, and pushed some into default. A CFPA could monitor these changes and limit the level or rate of increase, or require that cardholders be given the right to reject an increase that significantly raises the monthly minimum payment.

Unnecessary Hits to a Credit Score
As lenders look for ways to reduce financial risk, consumers who have done nothing wrong can find that their credit lines have been closed or reduced. They may be hit with another costly surprise - their credit score may have suffered. Approximately one-third of a consumer's credit score is based on the amount of credit they have compared to the amount of credit they use (utilization ratio). A card issuer can close an account or sharply reduce a credit line, thus reducing the total amount of the cardholder's available credit, and raise the percentage of credit used, leaving the impression that the cardholder now has a higher proportion of debt - even if the debt load in actual dollars may not have budged at all.

For cardholders who have been responsible customers this can have serious ramifications -- from reducing the opportunity to make a major purchase if a credit line has disappeared to ruining dreams of buying a home if a credit score has dropped enough. A CFPA could ensure that consumers receive adequate warning about account closings and credit line reductions, and that lenders are not unfairly reducing credit scores for borrowers whose financial risk has not increased.

Outdated Information
Consumer Action's 2009 survey found that getting current, accurate rate and fee information online can be quite difficult. In March 2009, buried in the fine print of credit card websites were clauses that read that their disclosure information could not be relied on.

- Pulaski Bank and Trust: "The above disclosures are accurate at the date of printing" (12/2007) (finally updated in August 09)
- Golden 1 Credit Union's info could only be vouched for in April 2007 (updated July 09)
- Town North Bank & Everbank's information dated back to October 08, in spring of 09.
- Chase & First Command's information was from last winter (Dec 08)

How can a consumer make a judgment as to whether one credit card offer is better than another unless they can rely on the accuracy of the information provided? What's more, frequently the bank's solution is to instruct consumers to write for updated information! While the new law requires that credit card information be disclosed online, it does not require timely information. A CFPA could insist on that.

Mandatory Arbitration
61% of issuers surveyed in 2009 required cardholders to accept binding mandatory arbitration as part of their credit card contract. Discover allowed new cardholders to reject that clause if they declined within 30 days of receiving the card. The CFPA could stop binding mandatory arbitration.

Muddy Opt Out clauses
Some card issuers (Chase, Citibank, Capital One, and Bank of America) offer their customers the chance to opt out of a change in contract terms, but not all lenders do. How the opt out is structured varies from lender to lender. One lender allows cardholders to keep the old terms but requires them to close the account. Another, (Bank of America) does not actually close the account, but if the cardholder uses the card going forward he or she will be charged the higher rate under the new terms. This becomes a 'gotcha' policy that the credit card law is designed to eliminate.

Citibank has a "tiered" opt out. If the rate rises for 'market' or 'economic' reasons, cardholders may opt out and the account will remain open until the card expires, and if the card is re-priced because the cardholder appears to be a riskier customer, he or she may opt out, but the account is closed. *But*, if the customer makes a late payment or goes over the limit (behaviors that earn a default rate) the cardholder will be hit with a rate as high as 29.99% with NO option to opt out.

At a minimum, a CFPA could require that these distinctions are made clear to cardholders, or could mandate that a company must live up to its word when it promotes a policy to not raise rates or fees until the card expires.