# Consumer Action

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# Uneven Playing Field

***A Summary of Consumer Action's 2007 Survey of Credit Card Terms and Conditions***

**Testimony of**

## Consumer Action


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***Before***

**The House Subcommittee on Financial Institutions and Consumer Credit**

**The Honorable Carolyn Maloney, Chair**

**April 26, 2007**

## A SUMMARY OF CONSUMER ACTION'S 2007 SURVEY OF CREDIT CARD TERMS AND CONDITIONS

Consumer Action (www.consumer-action.org), founded in 1971, is a San Francisco based nonprofit education and advocacy organization with offices in Los Angeles, CA and Washington, DC. For more than two decades, Consumer Action regularly has examined credit card rates and charges in order to track trends in the industry and assist consumers in comparing cards.

The 2006-2007 Credit Card Survey was conducted between October 9, 2006 and March 2, 2007. Consumer Action examined 83 cards from 20 banks, including the top 10 U.S. credit card issuers. We are currently analyzing this survey data and can share some of our preliminary findings with you today.

During our credit card survey we call companies' toll-free numbers posing as consumers. This gives us insight into what people face when they shop for credit. The principal focus of our studies is the ability of consumers to obtain clear and complete facts about credit card rates and charges – ***before they apply for credit.***

Each year it becomes more difficult to get information from credit card companies. The answers to our survey questions increasingly lack key details about conditions, especially those relating to fees and other costs, and to the circumstances that trigger penalty measures such as higher interest rates and reduced credit limits. Representatives often are unable to provide even the basic facts required by federal credit card disclosure laws.

**Hidden terms and conditions.** There is no place for potential customers to find accurate information. Credit card companies have call center staff to serve existing cardholders and separate personnel to take applications from potential customers. Non-customers are blocked from calling customer service because you need an account number to get through. Application lines are staffed by salespeople who are unable to provide accurate information about terms and conditions. This leaves potential customers in danger of applying for a card that at best doesn't suit them and at worst, contains predatory terms and conditions.

Such trends make it more difficult—if not impossible—for consumers to shop around for the best deal on a credit card. We have found examples where cardholders are required to go well into the application process—providing sensitive personal information in order to proceed—before being given legally required disclosures. The HSBC web site, for instance, provides only a range of APRs, assigns much space to marketing the "benefits" of each card, and fails entirely to provide required upfront disclosure on the grace period, balance calculation method, minimum finance charge, etc. *(See the attached HSBC credit card disclosure document from the company's web site.)*

All top 10 issuers advertise cards on their web sites that do not carry firm APRs. Instead, they skirt regulations by providing only a meaningless range of rates—cardholders don't know what rate they'll get until they apply. We believe that this pattern of disclosures that is so general as to provide no substantive information violates the credit card solicitation disclosure provisions of the Truth-in-Lending Act. At the very least, the law demands that potential cardholders be given concrete information about the costs associated with a credit card before they apply.

**Punishing practices.** Standard in the vast majority of credit card agreements, unilateral change in terms provisions are often cited as a way for companies to manage risk. But these "take it or leave it" contracts of adhesion force cardholders onto an uneven playing field—in many cases even before they actually become customers. Among the terms that are shoved down cardholders' throats are penalty rates. If you pay your credit card bill late even one time, often by even one day, your interest rate skyrockets.

When potential cardholders go shopping for a card or respond to an invitation to apply sent to their home, they have no way of knowing what the terms on that card will actually be until it arrives in the mail. Even if cardholders decide not to activate the card, the account is reported on their credit reports for many years. Consumers who accept a firm prescreened offer of credit have no idea what their credit limit will be. Why should cardholders have to wait until the card has been issued to see and read the contract that governs their use of the card? Why should cardholders have no reasonable right of rescission if they don't like the terms being offered?

And worst of all is the practice of applying adverse changes in terms based not on the cardholder's payment record, which may be spotless, but on credit scores or items in the consumer's credit reports. Does it make any sense to increase the interest rate of customers who are having a hard time with their debt load? Or, someone who has paid late on another credit card? No. The real purpose is to maximize revenue at the expense of those who are least able to afford it.

Consumer Action has heard from hundreds of consumers asking for help because they have been saddled with sky-high interest rates that are applied to their existing balances because of new items in their credit reports.

> *Thomaston, ME, April 3, 2007—HELP!!! I have a Chase card that is now at nearly 40% interest and the rate is only due to a late payment for my mortgage. I called but they will not reduce my rate. My interest last month was over 300 dollars!*

It is outrageous for credit card issuers to claim that they are merely using risk management techniques when they increase interest rates to loan-shark levels. We challenge the industry to explain how taking out a new car loan or having a credit card payment arrive one day late makes a customer so much more risky that the company can justify a doubling or tripling of the interest rate. If this is really risk-based pricing, why do most issuers have standardized default rates instead of a range that reflects the actual added risk? There is no way that a credit card payment coming in one day late creates as much risk for a credit card company as a cardholder with a 30- or 60-day late payment.

**Adverse changes to existing accounts.** In early 2007, most major issuers deny that they employ "universal default" policies to hike interest rates based solely on the way customers handle their other credit accounts such as car loans, mortgages and revolving credit accounts. However, we think they still use credit report information as a reason to make adverse account changes under their "change in terms" provisions. Knee-jerk interest rate hikes based on credit reports concern us greatly because of the very real probability that credit reports contain errors.

A Michigan man recently contacted Consumer Action to complain that Chase had raised his card's interest rate from 8% to 30% APR. Upon investigation, the cardholder found that his utility company had been mistaken in reporting a late payment on his credit report, which caused his credit score to drop, prompting Chase to increase his rate. The man was able to correct the mistake on his credit report, but it proves more difficult to get the credit card interest rate back to its original level. This is a common situation for burned cardholders who call Consumer Action for help.

During its most recent survey, which wrapped up on March 2, Consumer Action asked customer service representatives at 20 card issuers: "Do you raise my interest rate because of my credit record with other credit cards or lenders?" Based on the answers, it appears that half of surveyed banks would, at the time of the survey, raise cardholder APRs based on information from credit reports and scores. These banks are Chase, Citi, Commerce Bank, Discover, EverBank, Franklin Templeton Bank & Trust, GE Money Bank, HSBC, Metropolitan National Bank and US Bank (We note that Citi in a March 1 press release pledged to stop universal default.)

Consumers who contact Consumer Action report being the victims of default rates that were double and triple their old rates. Credit card companies say they must protect themselves against risky customers, but do they have to resort to exorbitant rates to do it?

> *Elkins, WV, March 15, 2007—I've been a cardholder with Bank of America for 16 years. I recently noticed they had raised my interest rate to 32.24% and was appalled. I telephoned to request that they lower the interest rate on my account as I hear everywhere you can negotiate lower rates... I was told I don't qualify for lowered rates because I had made 13 late payments over 16 years. When I pointed out that for 16 years there has never been even one late payment on my credit report and that 95% of those supposedly late payments were less than 48 hours past the due date, I was told, "Sorry, you are not in good standing with Bank of America."*

When you're turned down for credit, the law requires that you receive a letter explaining why. But if you are hit with a penalty rate hike or other punitive adverse change in terms, you don't learn about it until your next statement arrives.

At the recent Senate hearings on credit card practices, issuers said on the record that they do everything they can to help cardholders in trouble. Meanwhile, Consumer Action hears from far too many cardholders, who, like the West Virginia woman above, are told to, "Take it or leave it." This is a shamefully inadequate response to helping cardholders in trouble!

*Note: More examples of recent consumer complaints about adverse changes in terms received by Consumer Action are attached to this testimony.*

**Change of terms provisions.** Consumer Action advises cardholders to look beyond the default rates disclosures, to clauses in the fine print of solicitations and cardholder agreements commonly labeled change of terms provisions. This is the legal boilerplate that gives issuers the right to change APRs and other key terms at will—at any time, for any reason.

On March 5, 2007, Consumer Action visited the web sites of the top 10 U.S. card issuers to review change of terms disclosures. Only one (Discover) did not include a blanket change of terms notice. American Express and Wells Fargo feature change of terms provisions but do not include any reference to credit reports or scores as a reason to change the terms of the cardholder agreement. *(See attached chart for change in terms disclosures for the top 10 issuers.)*

Some notices contain the right to change terms based on "competitive" factors. Banks may say they need to change terms in order to manage risk, but in truth they hike cardholder rates when they perceive their competitors are making more money than they are.

**Residual interest.** Sometimes called trailing interest, residual interest is a deceptive method of calculating credit card interest right up to the day a full payment is received. Consumer Action discovered that nine of the 20 banks surveyed employ the practice. These include top 10 issuers Bank of America, Capital One, Chase, Citi, and HSBC.

Consumer Action believes residual interest is an unfair and deceptive practice. Cardholders who access their account online to make sure their full payment has been received by the due date would see a zero balance, because the trailing interest isn't added until the close of the subsequent billing cycle.

Disclosures about residual interest practices in cardholder agreements are not standardized and if read, not generally understood. The following chart shows how residual interest works:

### *Residual interest example*

You purchase a $3,000 TV using your 17% APR credit card and decide to pay off the balance in three payments. You have a zero balance when you purchase the TV and you make no new purchases while you pay off the balance. Your payments are received and credited on the due date, but on your next statement, you are charged $7.59 more in interest.

| Billing Cycle | Payment | Interest charges | Principal paid | Current balance |
|---|---|---|---|---|
| 1 | | | | $3,000 |
| 2 | $1,025.11 | $37.50 | $987.61 | $2,012.39 |
| 3 | $1,025.11 | $25.15 | $999.96 | $1,012.43 |
| 4 | $1,025.09 | $12.66 | $1,012.43 | $0.00 |
| 5 | | $7.59* | | $7.59 |

** This interest charge is figured on a balance of $1,012.43 for 20 days (the time between the close of your billing cycle and the day your final payment of $1,025.09 was credited).*

**Penalty rates.** Consumer Action finds penalty rates as high as 32.24%. Late payments result in higher penalty rates with 85% of surveyed issuers—an increase from the 2005 finding of 79%. Five of these issuers (Bank of America, Citi, GE Money Bank, HSBC and Washington Mutual) said that a payment not received by a certain hour on the due date itself (i.e. 4 p.m.) would trigger an immediate penalty rate hike.

**Late fees.** In 1995 Consumer Action found an average late fee of $13, with no company charging more than $18. In 2007 the average fee has more than doubled to $28.02—and late fees are as high as $39 per incident.

It was in 2003 that Consumer Action first noted tiered late fees tied to the balance amount. Tiered late fees result in higher-than-average late fees for cardholders with lower balances. Fourteen issuers (70%) use tiered late fees tied to the cardholder's balance—up from 40% in 2005. This penalizes people with smaller balances more than those with high balances who might legitimately be considered a greater risk if they default.

**Due dates.** These days, most issuers require that your payment arrive before a certain hour on the due date or you'll be charged a late fee. Each bank sets its own cut off time for late payments on the due date. These times vary widely. BB&T Bank will not accept payments after 2 p.m. on the due date and Chase requires payments by 4 p.m. Citi changed its 2 p.m. cut off to 5 p.m. sometime in the past two years.

Even people who try to make timely payments will be hit with a late fee if their payment was delayed in the mail. We hear from many consumers who allowed seven days to post a payment, yet still the bank assessed a late fee. Banks should consider postmarks when posting payments. If the Internal Revenue Service can do it, why can't credit card issuers?

**Non-business due dates.** Due dates that fall on Sundays or holidays have become a very common occurrence. Consumer Action attempted to discover whether cardholders are being charged a late fee if the due date falls on a weekend or holiday. Of 20 banks, seven representatives answered "yes," five "no," seven "don't know," and on one card it was impossible get a straight answer. If an employee of the bank doesn't know the answer, how can a cardholder be held responsible for not understanding the rules?

> ***Pittsburgh, PA, March 2, 2007****—Bank of America sent me a bill showing a due date of Monday, Feb. 19, which was Presidents Day and a legal holiday. In fact, they would not accept online payments on Feb. 17, 18, or 19. They accept payments only Monday through Friday, not including holidays. The de facto due date is then Feb. 16 if you do not want to get hit with late fees. Sneaky!*

**Over limit fees.** Contrary to what many people believe, a purchase that takes you over your credit limit will not necessarily be denied. Instead, you'll be stuck with an over limit fee, which can be assessed *every* month until your balance is under the limit. The industry either should deny charges that go above the credit limit or not charge a fee. If they are going to accept charges over the credit limit, they should be happy just with the added interest and be barred from adding over limit fees.

> ***Gould, AR, April 2, 2007****—As a full time college student with a part time job, I manage my money wisely. I pay my credit card bills online and I take great care to manage my finances. I have a credit card with Discover that I kept under the limit until I was one day late with a payment and they assessed my account with an over limit fee. The only reason I was late is because of the posting policies they have when you make online payments. Because of my late fee, my account was pushed over limit and I was then assessed an over limit fee. Since this happened, I have consistently made my minimum payments online and on time and now I am almost $400 over limit even though I have not made any purchases.*

**Shrinking grace periods.** Your credit card's grace period is the number of days in which finance charges do not accrue. The grace period disappears when you carry a balance, so this is a perk enjoyed only by the 30% or so of cardholders who pay in full every month. Consumer Action's survey found that among the top 10 credit card issuers, the average grace period is 22 days. The average grace period among these issuers has shrunk by more than 3 days since 1995.

**Credit limits.** Fifteen surveyed banks (75%) said they might reduce cardholders' credit limits if they exhibited certain risky behavior. The 15 banks might reduce credit limits under these circumstances:

- Poor credit history or lower credit score.
- Not paying on time or going over limit.
- Bouncing a payment check.
- Your performance on the account.
- High debt-to-income ratio.

While Consumer Action admits this practice might be a sensible way to manage a risky cardholder account, unfortunately we have heard from consumers who find their credit limit has been reduced to a point where it is lower than their existing balance, triggering over limit fees. This should never be allowed to happen to any cardholder.

**Deceptive interest rates quotes.** The annual percentage rate (APR) is one of the most basic facts that must be disclosed in advance to credit card applicants under the Truth-in-Lending Act. But since 1999 Consumer Action has found that an increasing number of banks fail to quote a firm APR, and instead provide a meaningless range of rates. This practice defies federal credit card disclosure provisions and prevents consumers from comparing cards. In 1999, only 14% of banks failed to quote a firm APR. By 2007, the percentage had more than tripled to 52%.

Worse, the quoted rates in a range are tagged with deceptive labels such as "premium" and "preferred" which leads consumers to think they are getting the best interest rate the bank offers. At Chase, we found "premium" rates of 18.24% and 19.24%. At Bank of America, we found "preferred" rates as high as 18.24%.

**Cash advances.** Credit card cash advance fees have escalated dramatically in the last decade. In 1995, the average charge was 2.2% of the amount advanced, with an average cap on the fee of $17. By 2007, the average fee had jumped to 3.07%—a 40% increase. More disturbingly, 90% of the cards have no upwards limit on the fee. On the handful of cards with a fee cap, the average maximum has more than doubled to $40.

On cash advances taken with a credit card, the interest begins to accrue immediately, even if you do not carry a balance. On the majority of cards, a higher interest rate applies on cash balances. Of all cards surveyed, 74 (89.15%) have higher APRs for cash advances as compared to purchases. (In 2005, 74.8% of surveyed cards had a higher interest rate for cash advances.) The average purchase APR is 14.91%, and the average cash advance APR is 23.09%—a difference of 8.1 percentage points. The range of rates is 14.74% (Franklin Templeton Bank & Trust) to 24.24% (Bank of America, Chase, US Bank and HSBC.)

**Fees for on-time payments.** Sixty-five percent of surveyed banks charged a fee for non-automated payments made by phone. The fees ranged from $3 (Amalgamated Bank of Chicago) to $14.95 (Citi and Washington Mutual). The average fee charged by these banks is $9.23. Bank of America ($14.95) and Wells Fargo ($10) charge when you pay by phone from an account at a second party bank. None of the banks charge people who pay online, however several banks have fees for "expedited" payments made within a certain period before the due date. These banks include Chase, with a $14.95 fee; and HSBC, $15.

**Bounced check fees.** If your bank returns your payment to the credit card company because you do not have the funds in your bank account to cover the payment, 81 (97.6%) of the surveyed banks will charge you a fee of up to $39. The average bounced check fee at these banks is $32.06. Bounced check fees range from no fee (American Express Clear Card) to $39 on 31 cards. The lowest fee found by Consumer Action is $20 at First Command Bank. In addition, Consumer Action discovered that many banks will charge a comparable fee if you write a credit card convenience check that causes your credit card to go over limit or if you ask to stop payment on a credit card check.

**Balance calculation.** Two-cycle interest policies calculate interest based on two billing cycles instead of the more prevalent practice of determining interest only on the immediate billing cycle. Unless you always pay in full, two-cycle billing means that you pay interest on a portion of the same balance you paid last month. Consumer Action found three banks using two-cycle billing, Discover, Chase and Washington Mutual. As the survey period ended, Chase announced at a Senate Banking Committee hearing on credit card practices that it would no long use two-cycle billing—a practice it had preserved on many cards following its takeover of FirstUSA. Washington Mutual uses a two-cycle billing method called "average daily balance" which applies interest back to the date of each purchase made in the previous cycle.

**Confusing minimum payment formulas.** Among the top 10 issuers, Consumer Action found nine methods for figuring the minimum monthly payment a cardholder must pay. Citi's policy is the most confusing—the issuer has at least three ways of calculating minimum payments. Citi cardholders must check their monthly billing statements to know which one applies.

| | |
|---|---|
| **American Express** | Greater of: (1) 2% of balance, or (2) $15, or (3) all finance charges + $15. |
| **Bank of America** | 1% of balance plus all finance charges and fees; or, 5% of balance if no fees or finance charges apply. |
| **Capital One** | Greater of 3% of balance or $10. |
| **Chase** | Greater of $10; 2% of new balance; or sum of 1% of new balance including all new interest and fees. |
| **Citi** | (1) past due and over limit amounts added to the greater of $20 or 1/48th of balance. (2) past due and over limit amounts added to the greater of new interest and late fees; $20, or 1/48th of new balance. (3) past due and over limit amounts added to the greater of $20; 1% of balance plus interest and late fees, or 1.5% of balance. On accounts with APRs above 19.99%, add $5. |
| **Discover** | 2% of balance plus outstanding fees. |
| **HSBC Bank USA** | Greater of 1% of the balance plus new interest and fees, or $15. |
| **US Bank, Wells Fargo** | 1% the balance new interest and fees, or $20. |
| **Washington Mutual** | Varies by account. Typically includes a certain percentage of the balance plus all new interest, late and over limit fees. |

**Source: Consumer Action 2007**

Consumer Action believes it would benefit consumers if all banks used a standardized method of calculating the monthly minimum payment. It would also be helpful if the methods used to calculate the balance were disclosed to applicants in advance.

**Hot button issue.** Before closing, I would like to bring to your attention just how important the issue of credit card reform is to your constituents. Consumer Action provides a free online "Take@ction" center on its website at www.consumer-action.org. In recent months, record-breaking numbers of consumers have visited our site and sent letters to their representatives in Congress asking for legislation to protect cardholders from abusive credit card industry practices. This is a truly "hot button" issue for the people you represent! In particular, we wish to highlight two separate actions:

> • *Since Jan. 23, 2007, 7,633 visitors have sent letters (6,881 emails and 752 letters) to their lawmakers asking them to enact "Credit Card Reform" by passing new cardholder protections in the 110th Congress.*
>
> • *Since May 8, 2006, 4,694 visitors have written 4,418 emails and 276 letters to Congress to urge support of one bill—legislation introduced by Senator Robert Menendez in the 109th Congress which would have addressed key abusive practices including late posting of on-time payments, retroactive application of higher interest rates to existing balances and universal default rate hikes.*

I thank you for your diligence in investigating credit card industry practices and I urge you to support legislation to protect consumers who use credit cards, including the Credit Card Accountability, Responsibility and Disclosure Act of 2007 (HR 1461) introduced by Rep. Mark Udall and the Credit Card Repayment Act of 2007 (HR 1510) introduced by Rep. David Price.

Consumer Action has joined leading national consumer organizations to create a Joint Credit Card Reform Platform. It outlines proposals that would help curb abusive lending practices. A copy of the Joint Platform is attached.

This is a "follow the leader" industry. When one issuer steps out with a new anti-consumer practice, other banks are quick to follow. When attention is focused on one bad practice, such as universal default, issuers are quick to say they don't do it. The problem is that other lesser known unfair practices continue, such as two-cycle billing, residual interest and due dates on Sundays and holidays.

Consumer Action asks that you do everything in your power to provide an even playing field for consumers who use credit cards.

*Submitted by:*

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## HOW CAN THEY DO THIS?

Recent Credit Card Complaints Received by Consumer Action

*These complaints in consumers' own words are a sampling from Consumer Action's assistance and referral database. Should you have follow up questions for these consumers, we would be glad to assist you in contacting them.*

**Charlotte, NC, March 9, 2007**—A few weeks ago, I received notice from Chase that the interest rate on my credit card would be raised on April 1st from 17.24% to 32.24%. I immediately wrote them back as directed within their notice asking why. This afternoon, I received a form letter from them stating that the following three reasons were why my interest rate had ballooned almost 100%:

1. Total bankcards balances are too high compared to credit limits.
2. Too many recently opened accounts compared to total accounts.
3. One or more accounts have high balances compared to credit limits.

Now, since receiving my Chase credit card last February, I have NEVER made a late payment on it. And, since I was charging practically all of my monthly expenses on it, I made payments above and beyond the expected monthly payments. I pay all of my other credit cards on time as well.

My question is, how can Chase do this? I have been nothing but an active, diligent customer of theirs. I was never notified that high balances on other cards would cause my interest rate to skyrocket, never mind the fact that, barring late payments, once Chase entered an agreement with me to provide me with credit I feel that they should be honor bound to maintain that agreement. Obviously the phrase "honor bound" should never be used when describing credit card companies, but I would still like to know how they can legally do this. It is nothing more than extortion and robbery.

Is there anything that I, an average American citizen can do to fight against this highly unethical action? Naturally I have already stopped using this card and am attempting to pay Chase off as quickly as possible before the 32.24% interest rate devours me.

**Hilton Head Island, CA, March 23, 2007**—I am writing about my MBNA AAA credit card [Bank of America]. My rate increase from one statement to the next was from 7.99% to 21.99%. We always paid on time and paid at least the minimum balance. I was told that I was notified via an insert in my January statement, which I don't recall ever seeing. The company will not change the new rate or credit me for additional finance charges on this bill. I don't feel it is right to be subject to a finance charge at a rate I never agreed to when I have not been negligent.

**Monroeville, PA, March 13, 2007**—My Providian [Washington Mutual] credit card account has always had an APR of 18.33%. Then a few months ago it was raised to 30.09% with no explanation. I rarely used the account up until June or July of 2006. I have never been late or missed any payments. I do carry a balance now that I did not have before. I have never gone over the limit. Providian has merged with another bank [Washington Mutual]. I called to have it put back at 18% but they declined the request to do that. Can they do this?

**North Bergen, NJ, April 8, 2007**—My Chase credit card interest rate increased from 6% to 27%. I have been a customer for 5+ years. I have never seen anything like this before. I called and asked Chase customer service, why the increase? I was told that in January they claim that my payment was two days late. I was furious and immediately cancelled the card and paid off the $15K balance. I will never use Chase again. This has got to stop. What happens to people who cannot afford to pay off their balance? Secondly, how can I prove that I mailed the payment in a reasonable time for them to receive before the deadline. It's a racket. Congress has to regulate the industry.

**Schaghticoke, NY, Feb. 28, 2007**—I signed up [with First National Bank of Omaha] for a card with a 1.99% interest rate for the life of my loan. I always paid on time and more than the minimum amount. My credit was excellent! In the process of moving I missed a bill for a $40 co-pay at the doctor's office. A year later, with no phone calls or letters, I was informed that my $40 had been sent to collections. I called the collection company and was told that they do not send out letters if the collection is less than $50.00. All of a sudden my credit card 1.99% rate goes to an absurd 25.85%. Upon making a phone call to First National, I was told that this is common practice! My credit history is excellent, I would never not pay a bill that I was aware of...especially a $40 one! These credit card companies are out of hand and need to be stopped.

**Denver, CO, Feb. 2, 2007**—I was divorced last year and had to take on debt. [I moved my balances to two Chase cards with 0% balance transfer offers.] When the year was up, they jacked my rates up to 30%. I called them, they said it was because I was only paying it to keep it from hitting the limit, which is actually the case, I was paying off higher debt cards first, which I did. I paid one of these cards off completely, and canceled it. I also paid a large chunk on the other card and they again refused to reduce my rates. The highest rate I have ever had was 18%, and have never had a company treat me with such disdain. I am working to pay this last Chase card off in the next month or two, but these people are robbing people.

**Jackson Center, PA, Feb. 12, 2007**—I have been a customer with Providian (now Washington Mutual) for about four years with NO late payments and almost all payments OVER the minimum. In January the interest rate was slightly over 30%. I made a payment that took my balance from almost $6,000 down to $1,000, and in February the interest went up OVER 34%!!! I tried to call and get the rate reduced in January. How can they charge so much and what can I do legally to stop this RIDICULOUS rate of interest?

**Florissant, MO, March 20, 2007**—I had a card account with Regions Bank/Union Planters and was never late, but in Dec 2005 I went over my limit by $59.02–that's including the over-the-limit fee. I was actually only over by $20.02 for Christmas shopping. They sent a note that the over limit amount had to be paid in the next 20 days. I not only sent in the over the limit fee, I also sent in $159.02 three days after I received the statement. They then proceeded to systematically start raising my interest rate slowly each month so that I wouldn't notice. Right away it went from 12.74% to 12.99% to 13.24% to 17.99% to 23.74% to 23.99% to 24.49% to 24.74% to 24.99% to 25.24%. That's when I caught it—when I noticed that the payment I sent in was almost the same as the interest I owed. The contract stated that the interest rate would stay the same as long as there were no more than two incidents in a year. I had only one incident – a $20 over-the-limit fee for Christmas shopping. What they did as far as I'm concerned was illegal. Now I can't pay and I have a collection company calling every other day.

**Inglewood, CA, Jan 29, 2007**—My Chase account has been erroneously overcharged in interest. I have called Chase about this problem on several occasions and have been unsuccessful in getting this matter resolved. It appears that in October of 2004 my interest rate was raised from 11.50% to 27.00% and now it rests at an uncomfortable 29.90%. When I asked about this, one operator told me that it was because my account had been reviewed and that I had been late on another revolving account in the past. When I reviewed my credit history with the three credit bureaus I saw that this was not the case. I have never been late on revolving account; in fact my credit is excellent. I called back on another occasion and I asked the operator to review this again. The operator said she didn't see why I was being charged such a high interest rate. I hadn't been late and suggested that I write a letter asking for this to matter to be reviewed. I would like Chase to credit me for the overpayment in interest since October 2004.

**San Jose, CA, Jan 8, 2007**—My Bank of America card APR changed from 13.90% to 31.90%. Before the increase, my debt was $4,800—it's now $5,500. When I returned from a second deployment in Iraq, my interest rate was changed to 31.90%. I am being charged more for the interest than the principal. I feel that this is predatory lending.

**Moody, TX, April 11, 2007**—I have done business with Bank of America for several years. I have one card with a large balance. I have been making double payments with a 4.90% interest rate and I am always on time. I had one accidental late payment, due to a family medical emergency, and then they raised our interest to 25%. This is criminal, in our opinion, and should not be legal! This is an unethical business.

**Knoxville TN, April 11, 2007**—The Juniper credit card website showed that I had available credit of $452.73 on my Juniper card. I used their site to transfer a balance of $450 from a Chase card to this account. THERE IS NO MENTION OF A BALANCE TRANSFER FEE ANYWHERE ON THE WEBSITE. I was charged $13.50 for the transfer. This put my balance $10.77 over the limit, so I was hit with a $39 over-the-limit fee. The interest rate shot up from 0% to 25.24%, so they added finance charges of $88.97.

**Denver, CO, Dec. 27, 2006**—I am at a loss as to why Chase raised the interest rate on my credit card. I have never been late. I pay at least the minimum payment. Last year they sent me a notice stating they were going to raise my interest rate to 24.99% or I could opt out and close my account. I closed my account. I just got my statement and without any warning they raised my rate to 24.99%. When I called them they said they pulled a credit report and because my balances were high on my other cards, that is why they raised it. I said the account had been closed because I didn't accept these terms but they said they ran another report. What can I do? These are my bills and I want to pay them back. But with this outrageous interest charge I will never be able to get this paid off for years

**Albany NY, April 12, 2007**—I called Washington Mutual in October 2006 to let them know that I would be having trouble paying off my credit card debt. As soon as the next payment was due my interest rate went up and a late fee was charged, putting me over the limit, causing an additional over-the-limit charge. I called them again to work out arrangements and was told that they could do nothing about it. For six months I tried to work with them to no avail. I am now being called at least six times a day, everyday and when I do pick up the phone they just want the money and can offer no other arrangements. I called them on 4/10/07 to see what they had to offer and was told that the over-the-limit and late charges will still apply every month until I can bring the credit card up-to-date. The cost of the fees is approximately $80 per month.

**West Henrietta, NY, April 2, 2007**—I have just received a brand new credit card from First Premier Bank. They have charged me a total of $178 in fees, including a $95 program fee, a $29 set-up fee, a $6 participation fee and an annual fee of $48. The credit limit was set at $250 and I have available credit of $72 with a $20 minimum payment already due. Is this legal? I did not knowingly agree to any of these charges.

**Au Sable Forks, NY, March 29, 2007**—I have gone beyond frustration with my Bank of America credit card. At every turn I get notices from Bank of America informing me that my finance charges have changed, my minimum payments can be increased to any amount. My card continued to have the finance charges increase, sometimes month-to-month. We were making our payments on time and, in fact, paying more than the minimum, and working aggressively to pay off the balance.

When the finance charges hit an absurd 24.99%, I called to make arrangements to help me pay the balance on my card. I was offered a reduced interest rate and was told that at the end of that arrangement, if I still needed assistance, that I could get back in touch with customer service and they would be able to help. I was also told that the finance charge, which was dropped to 8%, would rise slightly after the arrangement was complete, but that it should not be more than an increase of 2% or 3%. When we received our bill following the conclusion of the agreement, our rate jumped up to 15.49% as opposed to the 10 or 11% we had been told would be the case. I called and was informed that there was nothing that could be done because the account was closed. I stated that I had been told I would still have the opportunity to seek assistance, but was told in no uncertain terms that it was not possible. When I asked to speak to a supervisor or manager, I was also told that was not possible and upon insistence, was placed on hold and then dropped back into the start of the system. This happened multiple times with my husband as witness to the conversations.

What I don't understand is Bank of America's lack of respect for agreements that have been made prior to its purchase of MBNA. I have every intention of paying off my debt and have been working very hard to do so, but with this bank taking every opportunity to make that more and more difficult for me and my family, we find ourselves in a hardship situation. In other words, I have to abide by whatever terms are set forth, but Bank of America does not. In fact, I just received a notice saying that Bank of America was now able, according to the U.S. government, to change my minimum payments to any amount of their choosing. It makes me wonder how I am going to be able to continue to feed my family.

**Altamont, IL, March 18, 2007**—I had a Capital One credit card with a $500 balance. Due to personal reasons (medical), I did not make a payment for at least a year. I ended up with a balance of $1600. A collection agency wanted to settle for $800, which I could not afford to pay in full at the time. I agreed over the phone to pay $800, but at $50 per month.

I got up to $650 paid and then my payment was returned. My balance had been moved to a different collection agency. Now the new collection agency contacted me and wanted $1,000. I told them I would send them $150, ($800-$650) but they would not agree. They have actually switched collection agencies four times since all this has transpired. Remember this was a $500 limit credit card, I have already paid back the principal. All I owe is late fees, over the limit, and added interest on top of these fees. This whole thing has been a nightmare, I will gladly pay $800 total. A $1,600 balance on a $500 credit card is unreasonable and outrageous.

**ACORN • Center for Consumer Finances • Consumer Action • Consumers Union**
**Consumer Federation of America • Demos**
**National Association of Consumer Advocates * National Consumer Law Center •**
**National Council of La Raza • U.S. PIRG**

## JOINT CREDIT CARD REFORM PLATFORM

### <u>Eliminate reckless and abusive lending by credit card companies</u>

**No unsound loans:** Make issuers offer credit the old fashioned way, using sound underwriting principles based on the ability of consumers to pay and that ensure the cardholder is not overextending financially by taking on more debt.

**Restrict lending to youth without conditions.** Young people deserve credit, but only if they qualify. Yet right now, young people are the only group that can obtain a credit card without either a positive credit report, a job, or other evidence of ability to pay, or, barring any of these, a co-signer. No other adult can get a credit card without meeting at least one of these conditions. Young people should have the same safeguards.

**No abuse of consumers in bankruptcy.** Credit card issuers drive consumers into bankruptcy with abusive terms and collection practices. Stop issuers from collecting on these abusive loans in bankruptcy.

### <u>End deceptive and unjust terms, interest rates and fees</u>

**Ban retroactive rate increases.** Stop issuers from changing the rules in the middle of the game by raising interest rates on past purchases.

**No unilateral adverse changes in terms for no reason:** Credit card company contracts currently claim the right to change terms for any reason, including no reason. Any change in terms during the course of the contract should require knowing, affirmative consumer consent and reasonable notice.

**Ban universal default in all its forms.** Prohibit punitive "universal default" interest rates based on alleged missteps with another issuer but involving no missed payments to the credit card company itself. It is unfair to impose a penalty rate on a consumer who has not made a late payment to that creditor. Stop card companies from using a change in terms clause to impose penalty rates.

**Stop late fees for payments mailed on time.** Require credit card companies to follow the Internal Revenue Service (IRS) and accept the postmarked date as proof of on-time payments. This will also eliminate the tawdry practice of assessing late payment fees when payment is received on the due date, because it did not arrive by a specific time (such as 11 a.m.).

**Relate fees to cost.** Ensure that all fees and other charges closely match the true cost borne by the card issuer.

**End roll-over or repeat late and over-limit fees.** Ban fees that are charged in consecutive months based on a previous late or over the limit transaction, not on a new or additional transaction offense, even if the consumer remains over the previous limit.

**No fees for creditor approved transactions.** Don't let the credit card company charge a fee for a transaction it has approved. Ban over-limit fees when the issuer approves the over limit transaction.

## Empower consumers with more detailed information.

**Ban deceptive credit card offers**. Solicitations and "invitation to apply" solicitations that do not make a truly firm offer of credit are deceptive because they lead consumers to believe that they are pre-approved for or have a good chance of getting certain interest rates. Most consumers instead receive cards at much less favorable interest rates and terms.

**Simplify pricing.** Reduce the number and types of fees so consumers can compare cards and understand the real cost of using the card.

**Real minimum payment warning.** Give each consumer a personalized warning on his or her monthly statement calculating the length of time—in months and years—and the total interest costs that will accrue, if the consumer makes only the requested minimum payment.

**Ban unfair teasers.** Stop issuers from downplaying permanent interest rates in advertisements and solicitations and from trumpeting temporary rates as "fixed rates."

**Enhance 'Schumer Box' disclosures.** Include a "Schumer box" disclosure table in all cardholder agreements containing personalized information about the terms of the card granted. The box should include the APR, the credit limit, and the amount of all fees, such as late charges, cash advance fees, over limit fees and any other applicable miscellaneous fees.

## Give consumers strong protections to deter illegal acts

**Ban pre-dispute binding mandatory arbitration**. No consumer should be forced to waive his or her right to a court trial as a condition of using a credit card. Prohibit binding mandatory arbitration for consumers' claims *and* for collection actions against consumers.

**Toughen Truth In Lending Act (TILA) penalties.** TILA penalties have stagnated since 1968.

**Give aggrieved consumers a private right of action** to enforce the Federal Trade Commission Act to challenge unfair or deceptive practices by businesses, including banks.

**Change in Terms Provisions**
Top 10 U.S. Credit Card Issuers

| Name | Change in terms disclosure | Date of disclosure |
|---|---|---|
| **Chase** | Rates, fees, and terms may change: We reserve the right to change the account terms (including the APRs) at any time for any reason, in addition to APR increases that may occur for failure to comply with the terms of your account. For example, we may change the terms based on information in your credit report, such as the number of other credit card accounts you have and their balances. The APRs for this offer are not guaranteed; APRs may change to higher APRs, fixed APRs may change to variable APRs, or variable APRs may change to fixed APRs. ... We may consider the following factors to determine the default rate: the length of time your Account has been open; the existence, seriousness and timing of defaults; other indications of your Account usage and performance; and information about your other relationships with us, any of our related companies or from consumer credit reports. | © 2007 JPMorgan Chase & Co. Freedom Card. Downloaded on April 5, 2007. The disclosure contained this sentence: The information about the costs of the card described in this form is accurate as of 07/05/2006. |
| **Bank of America** | As required by law, rates, fees, and other costs of this credit card offer are disclosed here. All account terms are governed by the Credit Card Agreement sent with the card. Account and Agreement terms are not guaranteed for any period of time; all terms, including the APRs and fees, may change in accordance with the Agreement and applicable law. We may change them based on information in your credit report, market conditions, business strategies, or for any reason. | ©2007 Bank of America Corporation. Downloaded on April 5, 2007. The disclosure contained this sentence: The information contained in this advertisement was accurate as of 4/1/2007. |
| **Citi** | Rates, fees, and terms may change: We have the right to change the rates, fees, and terms at any time, for any reason, in accordance with the cardmember agreement and applicable law. These reasons may be based on information in your credit report, such as your failure to make payments to another creditor when due, amounts owed to other creditors, the number of credit accounts outstanding, or the number of credit inquiries. These reasons may also include competitive or market-related factors. If we make a change for any of these reasons, you will receive advance notice and a right to opt out in accordance with applicable law. | Copyright © 2007 Citigroup. Downloaded on April 5, 2007. |
| **American Express** | The terms of your account, including APRs, are subject to change. The APRs for this offer are not guaranteed; APRs may change to higher APRs, fixed APRs may change to variable APRs, or variable APRs may change to fixed APRs. We may change the terms (including APRs) at any time for any reason, in addition to APR increases for failure to comply with the terms of your account. | The information in this application is accurate through 3/31/2007. Downloaded on March 5, 2007 |
| **Capital One** | Other Reasons Your Terms Could Change: We reserve the right to change the terms of your account, including APRs and fees, at any time for other reasons, including changes to competitive or general economic conditions. How Your Credit History Could Affect Your APRs: We do not ... increase your APRs *solely* because you fail to make a payment on a loan with another lender or your credit history contains other negative information. If we ever consider increasing your APRs for any reason disclosed in the above paragraph(s), we may review your credit history to determine (a) that we should not increase your APRs, or (b) the level of the increase, if any. | The information about the costs of the cards described is accurate as of 04/01/07. Downloaded on March 5, 2007. |

| | | |
|---|---|---|
| **Discover** | No change in terms clause is included in its initial disclosures of terms and conditions. | Not applicable. |
| **HSBC** | We have the right to change your APRs, fees and other terms at any time, for any reason including, but not limited to, any change in your credit history, credit obligations, Account performance, use of your credit lines with us or any creditor, or our finanical return. Any changes will be in accordance with your Cardmember Agreement and applicable law. These cards are issued by HSBC Bank Nevada, N.A. and serviced by its affiliates, HSBC Card Services Inc. and/or HSBC Card Services (II) Inc. | © HSBC Card Services Inc. 2004-2007. Dowloaded on March 5, 2007. |
| **WaMu** | We may change the APRs, fees, and other terms of your account at any time in accordance with applicable law and the Account Agreement, which we will send you when your account is opened. Factors we may consider in determining whether and how to change your terms include the frequency and severity of defaults and other indications of risk on accounts with Washington Mutual and/or other creditors. | The information above is accurate as of October 2006 and is subject to change. Downloaded on March 5, 2007. |
| **Wells Fargo** | Application Agreement: You agree to be bound by the terms and conditions of the Customer Agreement and Disclosure Statement, which will be sent to you, and understand that the terms of your account may be changed at any time, subject to applicable law. | This information about the cost of the credit card account described in this application is accurate as of March 2007. Downloaded from online application on March 5, 2007. |
| **US Bank** | Your APR may increase if you fail to make timely payments to another creditor as reflected in your credit report. All Account terms are governed by the Cardmember agreement sent with the card. Account and Cardmember Agreement terms are not guaranteed for any period of time, we may change all terms, including APRs and fees, in accordance with the Cardmember Agreement and applicable law. | This information is accurate as of 04/2007 and may change. Downloaded on April 5, 2007. |
| **Synopsis:** | **Of the top 10 U.S. credit card issuers, Consumer Action found that 9 had change of terms clauses in solicitation materials that allowed changes to existing cardholders' account terms. Of the nine, only two (American Express and Wells Fargo) do not mention a right to change terms because of credit report information or the consumer's record with other creditors. Capital One can change APRs or fees, etc. for "competitive or general economic reasons," and reserves the right to check credit history to determine the level of increase, "if any."** | |

Please print a copy for your records.
Close Window

**Depending on your credit worthiness, you may be offered one of these great credit card products:**
*A full Terms and Conditions disclosure will be provided to you before your application is processed.*

| | HSBC No Annual Fee Platinum MasterCard | HSBC Platinum Rewards MasterCard | The Weekend Card | HSBC Platinum MasterCard | HSBC Secured MasterCard |
|---|---|---|---|---|---|
| **Annual Fee** | $0 | $0 | $0 | $39-$79 | $35 |
| **Processing Fee** | $0 | $0 | $0 | $0-$49 | $300 minimum deposit |
| **Benefits** | - 0% Introductory APR for 6 months on purchases and balance transfers*<br>- MasterCard Platinum benefits<br>- Zero Liability for fraudulent charges<br>- Free online account access | - 0% Introductory APR for 12 months on balance transfers* or 0% Introductory APR for 6 months on purchases and balance transfers (6 month promotional offer for certain HSBC Bank branch customers only).<br>- Unlimited Cash Back and/or Travel Rewards<br>- MasterCard Platinum benefits<br>- Zero Liability for fraudulent charges<br>- Free online account access | - 0% Introductory APR for 12 months on balance transfers*<br>- A full 2% cash back on every single credit card purchase made on Saturdays and Sundays<br>- 1% cash back on credit card purchases made Monday through Friday<br>- MasterCard Platinum benefits<br>- Zero Liability for fraudulent charges<br>- Free online account access | - Great purchasing power to strengthen your credit<br>- 100% Fraud Liability Protection<br>- Choice of payment due dates | - Reports to all three major credit bureaus<br>- Earns you interest on your deposit<br>- 100% Fraud Liability Protection<br>- Choice of payment due dates |
| **APR** | 11.49%-19.49% | 11.49%-20.49% | 11.49%-20.49% | 14.90% | 21.80% |

It is our goal to provide you with the HSBC MasterCard that best fits your credit profile. If you are not offered the HSBC Platinum MasterCard, you may be offered an HSBC Secured MasterCard or non-reward MasterCard with other terms and conditions, which may not include a 0% Introductory APR, and will be disclosed before your application is processed.

***The 0% Introductory APR offer for 6 months does not apply to cash advances. The 0% Introductory APR offer for 12 months does not apply to credit card purchases and cash advances. After the Introductory Period, the Customary APR for purchases and cash advances made by credit card check will apply. The variable Customary APR will be between 11.49% and 20.49% (as of 3/1/07), depending upon your creditworthiness. If a Minimum Payment is not received and posted to your Account by the Payment Due Date, or your balance exceeds your Account credit limit, or your payment is returned unsatisfied by your bank or other financial institution for any reason, the Introductory APR will increase up to the variable Default APR of 32.24% (as of 3/1/07). The variable Cash APR is 24.24% (as of 3/1/07). There is no cash advance fee for balance transfers that post to your Account during the Introductory Period; thereafter a cash advance fee of 3% ($5 minimum/$50 maximum) for HSBC Bank Branch customers, or otherwise, 3% ($15 minimum) will apply, unless otherwise disclosed. The cash advance fee for cash advances is 3% ($15 minimum). The Minimum Finance Charge is $1.00. There is no annual fee. We apply payments to lower APR balances before higher APR balances. We have the right to change your APRs, fees and other terms at any time, for any reason including, but not limited to, any change in your credit history, credit obligations, Account performance, use of your credit lines with us or any creditor, or our financial return. Any changes will be in accordance with your Cardmember Agreement and applicable law. These cards are issued by HSBC Bank Nevada, N.A. and serviced by its affiliates, HSBC Card Services Inc. and/or HSBC Card Services (II) Inc.**

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