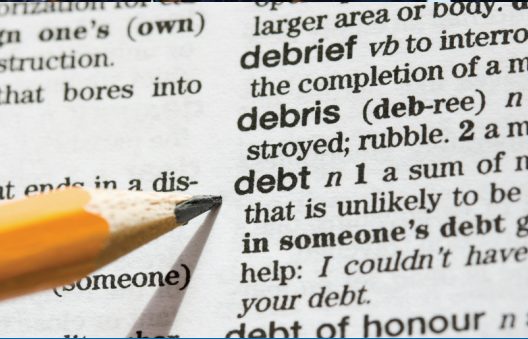


# A CONSUMER'S GUIDE TO Credit Cards



**TRUTH ABOUT CREDIT**

Freebies  
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APR

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JOE Q STUDENT 10/11

*Credit card companies flood us with card solicitations, deceive us with misleading offer terms, and gouge us with skyrocketing fees. As a result, consumers get trapped into high-cost credit card debt. What should you be on the lookout for? How can you avoid being ripped off?*

**MASSPIRG**  
Education Fund

[www.truthaboutcredit.org](http://www.truthaboutcredit.org)

# The Credit Card Dilemma

These days, having a credit card is almost a necessity. In most households across the country, a credit card is essential to building up and maintaining a strong financial history while adding convenience to daily life. On campus, students rely on credit to pay for educational needs like textbooks, tuition and transportation.

But to make more profit, the credit card industry has stepped up marketing and changed the rules to trap consumers into a cycle of high fees, penalty interest charges and other unfair practices.

The following are the tricks and tips to know to avoid credit card debt.

## Deals that are too good to be true

Glossy, too-good-to-be-true credit card offers come at us left and right. The average household receives eight credit card offers each month. In 2006, U.S. consumers received nearly 8 billion direct mail credit card solicitations last year, a 30% increase over the prior year, according to CardTrak. Meanwhile, college students who must pay for educational needs are solicited several times a week through flyers, on-line advertising and on-campus marketers. Credit card companies rely on many tactics to get consumers to apply. Here are the most common:

**LOW, "TEASER" INTEREST RATES:** The low interest rate that convinces a consumer to sign up can expire suddenly. A temptingly low introductory rate can climb to 30 percent or higher. These low rates are offered if the consumer transfers a balance from one credit card to another as well—in the hopes that the consumer won't pay off the balance and ends up paying higher interest once the teaser rate expires.



## PRODUCT REWARDS AND DISCOUNTS:

Credit card companies have designed new programs that offer consumers free merchandise—anything from vacation packages and airline travel to televisions, depending on how often the consumer uses their card. Credit card companies profit from these “rewards programs” by urging consumers to rack up a big balance that earns higher profits on interest for the company. These programs put consumers deeper into debt.

**FREEBIES ON CAMPUS:** Credit card companies give out all sorts of trinkets to get college students to apply for credit cards on college campuses. Freebies include low cost airline tickets, tee shirts bearing their college logo or stuffed animal mascots of the school, candy, pizza, frisbees, travel mugs, and more. These marketing tactics hide unfair terms and conditions.



*College students get freebies to apply for credit cards.*

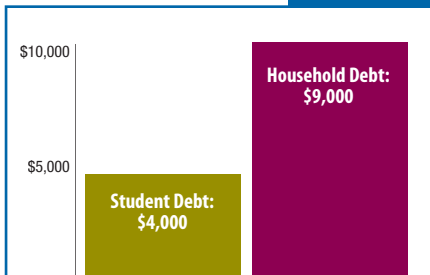
## Fees, fees, and fees

Once consumers sign up, then credit card companies ambush them with shoddy terms and conditions. In 2006, credit card companies made over \$17 billion in penalty fees. According to one survey nearly 60% of consumers pay at least one late fee each year. The fees now average \$35. New penalty fees combined with other unfair practices drive consumers' balances sky high.

**PENALTY FEES:** Companies slap consumers with fees by making it more likely they will be late paying their bills. Many have shortened the time between when a bill is sent and comes due. The industry has all but eliminated the grace periods for bill payment, to ratchet up late fee income. Most companies claim a bill is late unless received by 11am on the due date; and others may change a bill's due date from month to month.

**OVER THE LIMIT FEES:** Rather than rejecting transactions that exceed the consumer's credit card limit, issuers often let them go through, then charge a hefty over-the-limit fee—as high as \$39, and then raise that consumer to a penalty interest rate as a double whammy.

**SKY HIGH INTEREST RATES:** Some companies charge penalty interest rates as high as 40% a year. To prolong their profits at these high rates, they encourage consumers to pay very low minimum payments.



*The average U.S. household carries a balance of \$8-10,000 from month to month. The average student graduates from college with close to \$4,000 in credit card debt.*

## Unfair practices

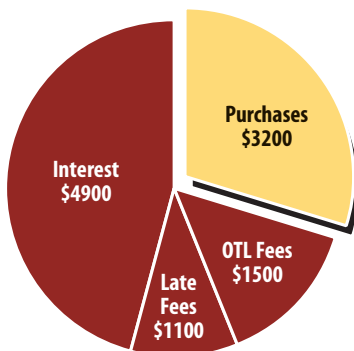
Perhaps the worst trend in credit card banking is the surge in unfair and at times predatory terms and conditions that take advantage of consumers.

**CHANGING CONTRACTS:** Credit card terms keep changing. Read the fine print and find this disclosure: “We reserve the right to change the terms (including the APRs) at any time for any reason, including no reason.” A fixed rate is fixed only until the bank provides at least 15 days notice that it isn’t.

**DOUBLE BILLING:** One-third of the credit card companies use a billing method which charges interest on credit card debt already repaid by the consumer!

### Unfair Penalties Sock Young Newlywed

Wesley Wannemacher got married in 2002. To pay for the wedding, he accidentally went over his card limit of \$3,000 by \$200. He never used the card again. Due to repeat late fees and over-the-limit charges, total charges reached \$10,700. On March 7, 2007, U.S. Senator Carl Levin (MI), Chairman of the Permanent Subcommittee on Investigations, explained: “[His] charges and fees more than tripled the original \$3,200 debt, despite his payments averaging \$1,000 a year. Unfair? Clearly...sky high interest charges and fees are not uncommon.” At right is a breakdown of the charges Wesley incurred.



**UNIVERSAL DEFAULT:** A consumer’s interest rate can skyrocket even if the consumer always pays the bill on time and never misses a payment. Some card issuers will raise the rate if a consumer in good standing to them merely inquires about a car loan, opens a new credit card, or allegedly misses a payment on another account.

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“Another area which I believe deserves examination is the massive increase and targeting of credit card solicitations. Many of the solicitations target students, persons currently on the economic edge, senior citizens on fixed incomes, and persons who have recently had their debts discharged in bankruptcy. I have long believed that we have an added responsibility to protect the most vulnerable in our society—and I believe that examining the targeting of these groups is critically important.”

*U.S. Senator Chris Dodd (CT), Chair, Senate Banking Committee*

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**HIDDEN COSTS:** Some fees are not disclosed at all in the materials provided to cardholders. For example, some issuers charge cardholders a \$5 to \$15 fee to make a single bill payment by telephone; others charge deceptive foreign currency transaction fees or even a \$2 to \$13 fee for obtaining a single copy of a billing statement or other record.

## Here are our six tips to avoid getting stuck with deep credit card debt:

1) Shop around before getting a card. Deceptive terms and conditions abound throughout the industry. Look for:

- An APR of 15% or lower;
- No annual fees;
- No universal default or risk-based repricing clause (where a credit card company claims the right to impose penalty rates if you are allegedly late paying to a different creditor or utility company or because your credit score declines, which could happen for numerous reasons unrelated to bad credit).



Also, read the fine lines on teaser rates—make sure that you don't agree to a low rate that then can rocket above 15-20% after the 90-day teaser expires. Finally, look for a penalty interest rate that remains in place for a limited time only, for example, your penalty interest rate should revert back to your usual rate after four to six consecutive on-time payments.

2) Use credit cards sparingly. Companies will try to lure you with "rewards programs" and incentives so you will use your credit card to pay for everything from pizza to rent to gasoline expenses. The debt you'll incur outpaces any additional value of what you gain in rewards. A 1% reward doesn't reduce a 25% APR very much! So pay for day-to-day and cost-of-living expenses in cash as much as possible.

3) Pay off balances in full each month. Companies keep the minimum monthly payment low so that you'll extend your payment over time and rack up additional debt in interest. If you can't pay off the card in full, then make the largest payment possible each month. Always pay more than the minimum required.

4) Make your payments as early as possible every month (at least 7-10 days before it is due) to avoid late charges. Also, watch for the trick of the "changing due date" (e.g., all of a sudden, your bill is due on the 25th, not the 30th). Companies routinely charge late fees which can be over \$30. Worse, when you pay late, nearly half of all companies also jack up your interest rate to 25-30% APR or more! Some credit card companies even impose penalty rates (universal default) if you are

late to a different creditor or utility company but on time to them, or if your credit score declines due to “too many credit inquiries” or “an increase in utilization (having cards paid as agreed but with balances over 50% of the limit)”.

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## Call your credit card company and ask for a lower interest rate. It works over half the time!

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5) Call your credit card company and ask for a lower rate. It's cheaper for a credit card company to keep a customer than find a new one, so if you think that your interest rate is too high, call the number on your card and ask for a lower one. In a recent PIRG study, over half the consumers who called lowered their rates by a third or more.

6) 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 ([www.naag.org](http://www.naag.org)) and the national Office of the Comptroller of the Currency (which regulates most of the biggest credit card companies and will forward your complaint to a different regulator if needed).

### **The Office of the Comptroller of the Currency**

**Website:** [www.occ.treas.gov/customer.htm](http://www.occ.treas.gov/customer.htm)

**Email:** [Customer.Assistance@occ.treas.gov](mailto:Customer.Assistance@occ.treas.gov)

**Phone:** 1-800-613-6743

**Address:** Customer Assistance Group  
1301 McKinney Street, Suite 3710  
Houston, TX 77010

## **How to check your credit report**

Check your credit reports at least once a year for errors by the three national credit bureaus (Experian, Equifax and Trans Union) that collect data on your financial history. Correct any errors immediately because your credit report is the main indicator of your creditworthiness.

All consumers have a right to a free annual credit report from each of the three bureaus, but only through the federally-mandated joint website at [www.annualcreditreport.com](http://www.annualcreditreport.com), or call it at 877-322-8228. Watch out for “upsell” offers, where the three bureaus try to get you to pay more by signing up for “trial offers” for their over-priced (up to \$15/month), unnecessary “credit monitoring” services.

Consumers in CO, GA (2/year), MA, MD, ME, NJ, and VT are also entitled to one additional free report per bureau per year directly from the bureaus. Consumers in other states may have to pay up to \$8 per additional report, unless they've recently been denied credit, are unemployed, or suspect that they are victims of identity theft. (Get information on how to obtain these additional reports at **Equifax**, 1-800-685-1111; **Experian**, 1-888-397-3742; **TransUnion**, 1-800-888-4213).

## How to stop solicitations through the mail

Under federal law, a consumer can reduce the number of solicitations received through the mail that are generated from the consumer's credit report (you'll still receive offers from your college, the airlines you use, or stores where you shop). You can find out more here at this government website <http://www.ftc.gov/bcp/online/pubs/credit/prescreen.shtm>. You can opt out for either five years or permanently—you can later choose to opt back in. Call this toll-free number 1-888-5-OPTOUT (1-888-567-8688) or visit [www.optoutprescreen.com](http://www.optoutprescreen.com).

## The truth about credit cards on college campuses

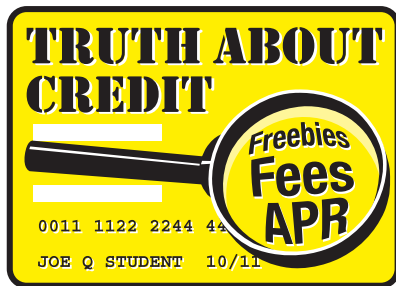
Credit card companies are now banking on a new market: college students, who they view as valuable new consumers. But companies rely on aggressive marketing tactics to entice them to apply. This marketing coupled with students' need to offset educational costs leads many students into serious debt.

- In 2001, fully 83% of all undergraduates had at least one credit card, with the average student carrying four.
- 71% of young adult cardholders do not pay off their balance in full each month compared to 55% of all cardholders.
- Balances among college student consumers have shot up 134% in the last decade.
- College seniors are graduating with an average of nearly \$4,000 in credit card debt.

A student in Florida cautions: "My freshman year in college there was an MBNA Mastercard booth at the student center giving away my favorite sports team's bag. So I applied."

A student in Oregon gives this warning: "A man a little older than me was signing people up for Visa 'low limit' credit cards. He said he was paid per person he signed up and that there were no strings attached. All he asked was for my address and signature. A few months passed and I got a call from my father saying I had received my card from Visa. I asked him to open it and it had a \$500 sign up fee bill that was not mentioned anywhere when I signed up."

A student in Colorado said: "I've had my two credit cards for two years now. And these credit cards had always had a consistent payment due date on the 3rd or the 6th of the month respectively. Two months after I closed my accounts, the credit company decided to out of the blue switch the payment dates. I logged online to make both of my payments for what I thought was on time and it turned out I was instead, all of a sudden and completely unexpectedly, late. \$90 in late fees!"



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[www.truthaboutcredit.org](http://www.truthaboutcredit.org)

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