

News
Monday, Nov. 02, 2009

Credit card companies raise rates and fees while they still can before the credit card act goes into effect February

By TONY ADAMS - tadams@ledger-enquirer.com



 MY YAHOO!

 SHARE 

 E-MAIL

 PRINT

COMMENTS (9) | 

RECOMMEND (0)

TEXT SIZE:  

Doreen Eddy found out the hard way how swift and antiseptic credit-card companies can be with customers.

Five months ago, one of her three cards for her small business, the Cyber Exchange computer repair and sales store on Veterans Parkway, was canceled abruptly.

The account carried an \$8,200 balance, but Eddy had not used it in months. The issuer, seeing her card was inactive, closed the account but allowed her to pay it off.



Mike Haskey/mhaskey@ledger-enquirer.com
Doreen Eddy, owner of Cyber Exchange, shows the statement informing her that the APR on one of her business cards had been hiked from 13.99

Last month, Eddy failed to make a payment because the bill had been shuffled under some paperwork. Though the card company said no penalties would be forthcoming, Eddy's interest rate suddenly skyrocketed from 13.99 percent to 32.99 percent. Her monthly finance charge spiked from \$95 to about \$225.

"I called them up and said, 'You've got to be kidding me. Somebody has lost their mind,'" she said. "I went around and around with them."

But to no avail. Despite her pleas and having good credit, Eddy got nowhere with the customer-service people and she angrily paid off the card's balance.

"I told them that it may not matter to you, but I'm going to let somebody know that this is wrong," said Eddy, who has operated Cyber Exchange

C
Q
En
Se
G
Ad
Le

- [Click here for more on using a credit card](#)
- [Click here for more on finding a credit card](#)

CREDIT CARD TIPS

Using a credit card can result in costs beyond what consumers pay for an item, with consequences including unexpected costs and even more debt. To help consumers, free online consumer finance portal Bills.com has compiled a list of seven common credit card fees — and how to avoid them.

ANNUAL FEES: These fees are charged to borrowers for the privilege of having a card. Most often, annual fees occur with secured cards and cards with perks, such as rewards or rebates.

HOW TO AVOID IT: Ask the card issuer if the fee can be waived, or if an alternative card offers no fee. Or look for a no-fee card — there are many. Beware: Some cards have no fee for the first year, but thereafter, a fee applies. Read terms carefully.

APPLICATION FEES: Some secured credit cards charge borrowers an application fee. **HOW TO AVOID IT:** Check before applying, and if a fee exists, ask if it can be waived. If not, look for a card that does not charge a fee.

BALANCE-TRANSFER AND CASH-ADVANCE FEES: These fees are charged when borrowers transfer a balance from one card to another, or withdraw cash against a credit line. Typically, these are one-time fees of 1 percent to 3 percent of the amount transferred or withdrawn. In addition, interest charges apply to the balance. Sometimes a special interest rate applies, which might be higher or lower than the regular interest rate. **HOW TO AVOID IT:** Watch for special offers, ask if fees can be waived, or avoid transferring balances or taking cash advances. Before transferring a balance to reduce interest payments, calculate the expected interest savings to determine whether paying the fee is worthwhile.

FINANCE CHARGE: A charge for carrying an outstanding balance on a credit card, based on a set annual interest rate. Many cards charge interest on the average daily balance over a two-month period, meaning that interest accrues even if the

for 13 years. “You can’t do this to people. I said this is absolutely ridiculous.”

Such maneuvering by credit-card companies is becoming more prevalent as the federal Credit Card Accountability, Responsibility and Disclosure Act approaches implementation this February, said Bill Hardekopf, chief executive officer of LowCards.com, which follows the card sector. He also is author of “The Credit Card Guidebook.”

The new federal regulations aim to protect consumers from sharp, sudden hikes in interest rates and fees.

But a number of card issuers, sensing the new controls they face in a few months, are now raising interest rates and fees while they can, Hardekopf said.

“This acceleration is made possible through loopholes that still allow areas of unhampered rate and fee increases,” he said. “Right now, it seems that some cardholders may have been better off without the bill.”

Add-on card costs can include balance transfer fees and annual fees, which were commonly waived before the financial crisis gripped the U.S. more than a year ago.

Since January, LowCards.com has tracked eight card issuers and found more than 50 changes in rates, fees, rewards and terms.

More and more consumers are seeing increases in their rates or minimum payments, Hardekopf said. In the current financial climate, negotiating lower rates with the issuers is typically fruitless, just as Eddy discovered.

That often leads to balance transfers, which also have a price.

“A 5 percent balance transfer fee adds strain to cardholders who are desperate to find a card with a lower rate,” Hardekopf said. “To make matters worse, interest is charged on the balance transfer fee because it is rolled into the amount transferred.”

That means a transfer of \$5,000 would bring a

borrower pays the balance in full one month. The finance charge will vary depending on the interest rate, account balance and method of calculating the finance charge. **HOW TO AVOID IT:** Pay the balance in full each month. In the event you regularly pay your balance in full each month, but receive a finance charge, contact your issuer and ask to have the fee waived. If that does not succeed, you may consider moving your business to another issuer and card.

INSUFFICIENT FUNDS (NSF) OR RETURNED CHECK FEE: A fee charged by the issuer when a check or electronic payment is returned by the bank for insufficient funds. The credit card issuer's fee is typically \$30 to \$40, and most banks charge an additional NSF fee of \$25 to \$30 per invalid check or transfer. **HOW TO AVOID IT:** Be certain funds are available to pay bills.

LATE FEES: These are the most common credit card fees, and the cure is simple: Pay on time. Each missed deadline incurs a fee, typically around \$30. In addition, many credit card issuers will increase the interest rate to the "default rate" — typically the highest interest rate they can charge — after a late payment. **HOW TO AVOID IT:** Allow at least seven days for payments by mail, or schedule payments online or by phone (which might involve another fee).

OVER-THE-LIMIT FEES: Over-limit fees are penalties for charging more than the limit. Even those who never exceed the limit should be forewarned: Recently, some credit-card issuers have lowered credit card limits, sometimes even lowering account limits below an existing balance. Thus, some borrowers who thought they were below their limits suddenly have found themselves exceeding limits. **HOW TO AVOID IT:** Keep balances significantly below the credit limit, and keep a close eye on the "credit available" amount. With new credit-card regulations signed into law this spring, borrowers must opt in for over-limit access. Watch for new cardholder agreements that include this provision.

\$250 fee plus interest.

A recent study by the Pew Charitable Trust found that card companies have accelerated practices that will be banned by the CARD Act, which was signed by President Barack Obama in May.

The study, titled "Safe Credit Cards Project," reviewed about 400 cards offered by the 12 largest issuers. Most allow rate increases on outstanding balances, while triggering penalties for only one or two late payments. They also are allowing payments to be applied to lower interest balances first.

All of those practices will be outlawed by the new federal rules.

"It's clear that until the law takes effect, or Congress accelerates the implementation date of the law, these practices are going to continue to be out there," said Nick Bourke, co-author of the Pew study. "Once it takes full effect next year, it's going to stop a lot of unfair and deceptive practices."

The Pew study also pointed out that credit unions, which are nonprofit institutions, may offer a better deal for consumers seeking a safe haven from surging and erratic rates and fees.

Credit unions have lower advertised rates than many bank credit cards, the study found, while penalty fees often were half that of the for-profit financial institutions.

The study's findings mirror those of its own research and show that credit unions are a good alternative to banks, said Mike Mercer, president and chief executive officer of the Georgia Credit Union Affiliates.

"Lower fees and lower rates are important benefits to credit union members with respect to their credit card accounts," he said. "Because credit unions are not-for-profit and member owned financial cooperatives, credit-card pricing and service features are designed to produce real value for members."