

# Consumer Action

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Consumer Federation of America

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## CARD ISSUERS HIKE FEES AND RATES TO BOLSTER PROFITS

Washington, D.C. -- The banking industry is pursuing aggressive strategies to increase credit card income and push consumers deeper into debt, according to a new credit card survey released today by Consumer Action (CA). CA and the Consumer Federation of America (CFA) called on Congress to approve new consumer credit card protections and urged cardholders to take steps to avoid new charges.

The CA survey of 117 cards from 74 banks, undertaken in August and September, revealed the following aggressive pricing strategies by card issuers:

- o Increased use of penalty rates. Especially in the past year, issuers have sought to increase fee income by defining stringent payment conditions which, if not met, trigger penalty rates of up to 25 percent. These conditions are as unforgiving as making one late payment or exceeding the credit limit once. Of 31 banks surveyed with penalty rate provisions, default APRs ranged from 16.25 percent to 24.95 percent.
- o Increased late fees. Many banks now charge late fees of \$29. On average, the 35 banks in the 1998 and an earlier 1995 CA survey increased late fees by more than two-thirds during this three-year period. In 1995, late fees at these banks averaged \$12.79. By 1998, the average had risen by 71 percent to \$21.82.
- o Increased "over the limit" fees. These fees are typically at the same level as late fees, with many banks charging as much as \$29. (These fees are charged monthly when an outstanding balance exceeds the credit limit.)
- o Shortened grace periods. Most banks give cardholders 25 days from the closing of a billing cycle to make a payment without additional interest. But a number of banks have shortened this grace period to 20 days, thus

increasing opportunities to assess late fees.

- o Curtailed "leniency periods", the time between the due date and when a payment can be received without incurring a late fee. Of 74 banks, 45 said they would impose late fees immediately if a cardholder's payment was not received by the due date. In the past, many banks gave consumers from 5 to 15 extra days to pay without penalty.
- o Lowered minimum payments, the portion of any outstanding balance that is due in each billing cycle. Nearly half the banks in the sample require a monthly minimum payment of only 2 percent of the outstanding balance. Repaying a \$2,000 balance on a 15 percent APR card would take two years longer if the cardholder paid 2 percent each month instead of 4 percent (6.6 years vs. 4.6 years), at a cost of an additional \$250 in interest.

"Banks are pulling out all the stops to increase profits from fee income," said Ken McEldowney, CA's executive director. "If you make a couple of late payments on a new card with an introductory rate, your annual percentage rate could jump as much as 15 percentage points," he added.

"Banks are aggressively seeking to increase interest and fee income because they wish to reverse a decline in profit margins and believe most consumers will accept the price hikes," said Stephen Brobeck, CFA's executive director. "Because of a saturated market and rising debt losses, bank card profitability declined from about 4 percent in the early 1990s to about 1 percent today," he added.

Another strategy pursued by card issuers is to increase indebtedness. They pursue this strategy through aggressive marketing of cards -- e.g., more than 3 billion mail solicitations last year -- and through aggressive credit extension. At present, banks have extended \$2.4 trillion of card-related credit -- \$24,000 for each American household.

In the last congressional session, Members proposed several new consumer credit card protections. For example, both Rep. John J. LaFalce (D-NY) and Rep. Joseph Kennedy (D-MA) introduced legislation that would prohibit issuers from penalizing cardholders who paid off balances in full. And, Kennedy's bill would also limit the imposition of penalty rates and prohibit other unfair practices. The one protection that advanced -- as part of Senate bankruptcy legislation -- was a requirement that, on monthly statements, issuers disclose how long it would take, and what the total cost would be, to pay off the debt making only the minimum payments.

The most effective strategy consumers can pursue to avoid the more than \$60 billion in interest and fees they pay annually is to pay off outstanding balances promptly. Reducing the number of major cards to only one or two makes it easier to keep balances low and also to avoid fees.

CA, founded in 1971, is a national consumer education and advocacy organization with offices in San Francisco and Los Angeles. CFA is an association of more than 260 pro-consumer groups that seeks to advance the consumer interest through advocacy and education.

Note to editors: The 1998 Credit Card Survey is available free of charge from Consumer Action. For a copy, consumers can send a self-addressed, stamped (\$.55) envelope to: Consumer Action-CC, 717 Market St., Suite 310, San Francisco, CA 94103. A press release and the Credit Card Survey are available on Consumer Action's website at [www.consumer-action.org](http://www.consumer-action.org)).

# Consumer Action 1998 Credit Card Survey

## Cards with Penalty Rates

GE Rewards	24.95%
Mellon Bank	24.90%
FCC National Bank	24.40%
First Consumers National Bank	24.00%
Household Bank	23.90%
Wells Fargo Bank	23.90%
Washington Mutual Bank	23.40%
Astoria Federal Savings Bank	22.99%
Bank One	22.99%
First USA Bank	22.99%
AT&T Universal Card	22.80%
American Express Optima	22.49%
Greenwood Trust Co. - Private Issue Card	22.40%
Greenwood Trust Co. - Discover Card	22.40%
NationsBank	22.40%*
National City Bank	21.90%
Partners First (BankBoston)	21.90%
First National Bank of SD	21.66%
Travelers Bank	21.60%
Bank of America	21.49%
PNC National Bank	21.49%
Chase Manhattan Bank	21.40%
Citibank Classic	21.40%
Wachovia Bank	21.24%
Citizens Bank	21.00%
Fleet Bank	20.50%
Star Bank	20.50%
Columbus Bank & Trust	20.40%
Crestar Bank	19.95%
BankBoston	19.90%
Fall River 5¢ Savings Bank	19.80%
People's Bank	19.80%
Huntington National Bank	19.40%
Fidelity National Bank	18.90%
Central Carolina Bank	17.88%
Washington Mutual Bank - Frontier Visa	16.25%

*\*Average non-introductory APR + 4%. May be higher or lower depending on cardholder's APR.*

# Consumer Action 1998 Credit Card Survey • Lowest Rate Cards

## Low rate cards with annual fees

<b>Bank</b>	<b>Fee</b>	<b>APR*</b>
Pulaski Bank & Trust	\$35	7.99%
Wachovia Bank (Prime for Life)	\$88	8.50%
Huntington National Bank (Prime Preferred Standard)	\$39	9.50%
Great Falls Bank	\$15	9.60%
Simmons First National Bank	\$35	9.90%
Metropolitan National Bank	\$25	9.96%
Atlantic Stewardship Bank	\$15	10.99%
AFBA Industrial Bank	\$35	11.00%
Amalgamated Bank of Chicago	\$37	11.25%
First Union National Bank (Low Rate Option)	\$39	11.40%

## Low rate cards with no annual fees

<b>Bank</b>	<b>APR*</b>
Astoria Federal Savings Bank	9.90%
AFBA Industrial Bank	11.40%
Bank of Canton	11.50%
Union Federal Savings Bank	11.90%
Pullman Bank (Privileges Classic)	12.50%
Star Bank - Platinum	13.20%
Union State Bank	13.40%
PNC National Bank (Member Select Classic Card)	13.49%
Liberty Savings Bank, Metropolitan Bank & Trust, People's Bank	All at 13.90%
Amtrust Bank	14.40%

\*APR = Annual percentage rate