



Beware of Credit Card Company Tricks

Credit cards seem to be a fact of life and nearly impossible to live without. Nowadays, the credit card industry is one of the most profitable forms of business. In fact, it is so profitable that many businesses that had little to do with financial services have entered this area by issuing and aggressively marketing their own credit cards.

Ironically, back in the 1950s when credit cards were first issued by oil companies, cardholders who missed a monthly payment on their account were referred to as “deadbeats” by company collection departments. Since servicing a credit card account has become so profitable for the companies—mainly because of all the various add-on fees and interest—cardholders who make it a point to pay their balance in full and on time are now the ones referred to as “deadbeats” by financial services industry insiders.

Entering into an agreement with a credit card company these days is about the same as entering into a relationship with a pirate. At the Legal Hotline we get daily calls from folks who have accumulated a large balance on their credit card account although they charged only modest amounts and have, over time, paid back the amount they charged several times over. What has shot their balance upward has been the addition of various fees for some violation of their agreement, which likely also triggered a substantial increase in their interest rate—up to as much as 30 per cent. For many folks with a modest, fixed income, the balance becomes impossible to pay off. They call the Hotline and ask, “Isn’t it illegal for the credit card companies to use all these sneaky tricks?” And we have to answer, “Well, mostly no.”

Lawmakers at the federal level are currently holding hearings with the intent of gaining information to craft new legislation to protect consumers from some of the worst of these tricks. During recent hearings the Senate Banking Committee chairman declared: “The list of questionable actions

credit card companies are engaged in is lengthy and disturbing.” Here are a few examples:

- Charging interest on penalty fees. You incur a late payment penalty; it’s added to your balance at which time you begin paying interest on it.
- Phone payments. You forgot to send your payment in on time to avoid a late fee so you call the company to pay by phone, e.g. by having the payment electronically withdrawn from your bank account. Whew, you avoided the late fee. Think again; some companies add an extra charge for the privilege of paying by phone.
- Address change, you lose. Some companies change their post office box for payments and if your payment goes to the wrong one it will end up being late. How about a late fee and maybe a higher interest rate to boot?
- Late fees in minutes. Believe it or not some companies provide in their agreements that your payment must reach them by a specified time of the day, say noon. Let’s say your payment arrives 5 minutes late. Say hello to a \$25 or \$35 late fee on your next statement.
- Universal default. This underhanded device can snag the unwary. You’re pretty good at keeping current with all of your bills but you slip up and miss a telephone bill. Ouch, another late fee, but how on earth? Your contract provides that if you are late on ANY of your bills you can be charged a late fee on your credit card balance. Your credit card company is probably monitoring your credit history right now, looking for late payments.
- Raising your rate for any reason. Most credit card company agreements allow the company to raise your interest rate at any time for any reason. Currently they have to give you 15 days notice. There is no negotiation on this—if they want the rate higher, they raise it. Remember, a “fixed rate” simply means a credit card company has to give you 15 days before raising it.

- Shrinking grace periods. It used to be that when you received any bill, you had 30 days in which to pay it. This was customary and not any legal requirement. Credit card companies have slowly changed the custom, by making changes to your contract, first to 25 days and now to 20. By the time the bill gets to you, sets on the counter a couple days waiting for you to put some funds in your account, and then winds its way back through the postal system, it may already be late. Another late fee.

What a credit card company can and cannot do is mostly controlled by the agreement you have with them. There is little law regulating the companies. Currently, there is no legal limit or ceiling on interest rates on credit card accounts.

Rules adopted last year by the Federal Reserve, which go into effect in July of 2010, protect consumers from arbitrary interest rate increases and inadequate time to pay bills. Additionally, consumers will have to be given 45 days notice before any changes are made to the terms of an account. The Senate Banking Committee hearings are likely to recommend legislation providing more protections for consumers.

What can you do to protect yourself in the meantime? It's absolutely essential that you carefully read any credit card agreement before you sign it. This may be much more difficult than you think; Dr. Elizabeth Warren, a Harvard Law School Contract Law professor has stated she was not able to understand a number of credit card contracts she reviewed. Read and keep all changes to the initial agreement the company sends you. You should also use care in transferring balances from one company to another as this is an area that can have hidden fees and confusion about interest rates. Finally, try to pay your bill as soon as you can after receiving it.

The Legal Hotline for Michigan Seniors can answer any questions you have about credit cards. You can make an appointment to have a lawyer give you a call, usually the same day, by calling (800) 347-5297, weekdays.

###