SELECTIVE INTERPRETATION?

Top Credit Card Issuers Appear to Follow Own Rules

CRL Research Brief

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CRL OFFERS QUICK SNAPSHOT OF RECENT ISSUER ACTIVITY

We took a quick sampling of credit card issuers' recent activities to see how they have responded to the Federal Reserve rule changes that were announced in December, 2008 but won't take effect until July, 2010. We found the top eight issuers, who account for 80 percent of credit card balances, are raising interest rates on a larger portion of customers than usual and increasing the number of fees they impose. The new Fed rule will ban some but not all of these activities.[1]

Perhaps most notable is what these issuers─ Citigroup, Bank of America, JP Morgan Chase, Capital One, HSBC, Discover, American Express, and Wells Fargo─have *not* done. All continue to apply a customer's monthly payments to the least costly balance first, leaving the most expensive to continue to grow. None have changed their policy of imposing interest rate hikes for any reason any time. Additionally, there is no evidence any of these companies has expanded the period from when monthly bills are sent and when late fees apply.

Some issuers have taken moderate steps to implement early a few of the changes the pending Fed rule would bring, such as moving the deadline on due dates to 5 pm, giving more advance notice of interest rate hikes, and allowing consumers to choose having a fixed credit limit. But for the most important rules, those that cost customers the most, no visible progress has been made.

Based on information we gathered from Mintel Comperemedia, Lightspeed Research, media reports and consumer complaints on the Web, we learned:

Price Increases

- In the last 6 months, every one of the top eight has increased interest rates on existing balances for many of their accountholders, not counting penalty rate increases.

    - The exact number of account holders who've been given a rate hike is unknown, but we estimate it's at least 10 million. This is on top of the rate changes imposed to penalize cardholders for paying late or engaging in other behavior cardholders deem a high risk.

    - We know that many cardholders have seen increases of 10 percentage points or more over their existing rate, though the exact average increase isn't known,

- Rather than moving toward eliminating penalty rates on existing balances, issuers are moving in the opposite direction, with at least 7 of the 8 top issuers increasing the amount of the penalty rates they impose on these balances.

Increasing Fee Levels

- Five of the eight top issuers are known to have raised fees on at least some cardholders in the last six months.
    - Two top issuers have raised several transaction fees, such as cash advance and balance transfer fees, to an unprecedented level of 4%.
    - Another top issuer has increased the amount of the late fee charged.
    - Another top issuer started charging a $10 monthly account maintenance fee and raised minimum payments to 5 percent from 2% for cardholders who had taken full advantage of a low rate promotional offer. Consumers who called to complain were offered a choice between having these changes reversed or agreeing to a higher overall interest rate. While the monthly fee was later reversed after public outcry, it appears that neither the change in minimum payment nor the change in APR was reversed.

Broadening the Number of People Charged Fees

- Rather than moving toward a longer period between the issuance of a bill and the assessment of a late fee, as the new Fed rule will require, issuers have tended to shorten grace periods, with at least one announcing it officially in a mailing to cardholders.[ii]
- Two issuers have broadened the definition of a "foreign transaction" to include transactions in U.S. dollars. Doing so negates the issuers' previous explanation that such fees are justified by the cost of currency conversions.
- At least one top issuer has broadened the definition of several other fees, including over-the-limit, returned payment, and convenience-check fees, so more customers have to pay such fees.

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[i] Some of the practices currently being implemented by issuers will not be allowed under new the rules. For example, the repricing activity (i.e. the changing of prices on existing account balances) currently taking place will become illegal. Some of the activities would be allowed by the new rules. For example, other than allowing sufficient time between mailing and due date, the fee activities highlighted here will still be allowed by the Federal Reserve rule changes. However, S. 414, The Credit Card Accountability, Responsibility, and Disclosure (CARD) Act of 2009, currently in the Senate would impact some of these fee changes by limiting the amount and scope of penalty fees and foreign transaction fees.

[ii] Technically under the new rules, grace periods and the timing of late fees can differ. However, we have yet to see any evidence that issuers are starting to differentiate the two. So for all practical purposes, a shortening of grace periods is also a shortening of the period of time before assessing a late fee.