

It's time for a credit card revolution

Remember when banks weren't out to get you? I do. And with Congress' help, we can un-rig a system that's determined to make you fail.

By [Liz Pulliam Weston](#)

A couple of years ago, consumers in the United Kingdom got a break when the country's Office of Fair Trading told credit card issuers that [their late and over-limit fees were too high](#).

Under U.K. law, penalty fees are supposed to bear some resemblance to the costs the card issuers actually incur. Regulators warned issuers that any fee over 12 pounds -- about \$24 -- would be presumed unfair and would likely be challenged. The office estimated U.K. cardholders were paying at least 300 million pounds in excess penalty fees annually.

Cardholders blitzed issuers with demands for refunds and have since deluged banks with similar requests over bounced-check fees. The totals that have been repaid aren't clear, although the British Broadcasting Corp. reported that about 329,000 people had won more than \$1.1 billion back from banks before the U.K. High Court agreed to hear a test case on the issue and such claims were suspended.

The U.S. has no similar law limiting what credit card companies can charge, but until relatively recently that wasn't a problem. Before the mid-1990s, the typical late or over-limit fee was around \$10.

Then banks began to realize that fee income was a much steadier source of profit than interest rates, which had started to decline. By 2006, late fees averaged \$34, the U.S. Government Accountability Office found, and today many of the biggest issuers charge \$39. In 2006, 35% of credit card accounts were assessed a late fee; the GAO estimates consumers paid \$7.4 billion in penalty fees that year.

It wasn't always like this

Most of the credit card industry's worst practices are recent innovations. They include:

- Universal default penalties that allow issuers to crank up your interest rate if you miss a payment with any other lender -- or have a fight with an insurer or wind up in a medical collection, an increasingly common occurrence.
- Ever-shrinking grace periods that make it more likely you won't get your statement in time to make the due date.
- Due *times* on due dates that result in late fees and higher interest rates if your payment fails to make it to the issuer's processing facility by, say, 1 p.m. on the due date.
- Fixed rates that change on an issuer's whim, rather than because of any misstep on your part.
- Fat fees for foreign transactions that add as much as 3% to the cost of overseas purchases.

When it comes to banking, a 'credit crunch' refers to when banks cut back on lending because of past losses. But now credit card companies are 'crunching' customers -- raising fees, cutting limits and more.

Over the years I've advised readers on how to deal with these dirty tricks, starting with the obvious: Don't carry credit card balances because they leave you at the whim of issuers that feel no compunction to play fair.

But I really think it's time we just turned back the clock to 1990 and codify into law what was standard practice then. We should:

Ban excessive fees. Current late fees might make sense if credit card companies deployed fleets of employees to follow up with defaulting borrowers. But the vast majority of late fees are paid by folks who haven't defaulted -- that is, they haven't actually skipped a payment. They're just a few days late, and usually the issuer takes no action other than slapping on the fees. Over-limit fees make even less sense because the credit card issuer controls which transactions get approved

and which don't. If issuers really cared about risk, rather than boosting profits, they'd simply deny any transaction that exceeded a cardholder's limit.

And don't get me started on foreign-transaction fees. A 1% fee, charged by the Visa or MasterCard exchange that deals with the conversion, is probably excessive. There's no excuse for the extra 1% to 2% charged by many banks.

Restore the 30-day grace period. In 1990, you typically got 30 days between the day your statement closed for the month and your due date. Even with snail mail, that was plenty of time to get your statement, write your check and mail it back. Today's 20-day grace periods all but require you to use electronic statements and online bill pay if you want to avoid late fees.

We need more breathing room. Another option, codified in the [Credit Cardholders' Bill of Rights](#) that's been introduced in Congress, would require issuers to mail statements 25 days in advance of due dates. The current minimum is 14 days.

And no more due times. In a 24/7 world, a due date is enough.

"Fixed" means "fixed." I'll use language from the credit card bill of rights: "Fixed . . . may only be used to refer to an annual percentage rate or interest rate that will not change or vary for any reason over the period clearly and conspicuously specified in the terms of the account." Every other type of lender seems to understand what a fixed rate is; only credit card issuers have been unclear on the concept. It's time we fixed it in their minds.

No more "any excuse" re-pricing. Several issuers, including Chase and Citibank, have abandoned universal default as Congress started taking a closer look at credit card practices. Universal default needs to be banned altogether, and issuers must be forced to make it crystal clear what actions on cardholders' parts can lead to a rate increase. No more deliberate vagueness about "actions that lead us to deem you less creditworthy." Issuers should give specifics: If you do this, then we do that.

Instead of giving 15 days' notice of any changes in rates and terms, I endorse the bill of rights' requirement that cardholders be given 45 days' notice, plus the option to close the account and pay it off under the old terms.

In fact, I think the bill, HR 5244, is a darned good start on helping us turn back time on the credit card companies. If you agree with me or want your voice to be heard, [e-mail your congressional representatives](#) now.

This is your best shot at changing the system. Use it. Credit card issuers are overdue for some change.

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Published March 20, 2008