Newsweek

Credit-Card Company or Loan Shark?

Consumers have increasingly been charged higher interest rates and pricey fees, and hit with one-sided account modifications. Will new legislation really put an end to all that?

by Nancy CookNovember 05, 2009

Like a lot of credit-card-carrying Americans, Paul Antico has had his wallet hit hard in recent months. His Bank of America credit card went from a fixed interest rate to a variable one that changes from one billing cycle to the next. Citibank has raised his other card's interest rate from 5.99 percent to 14.99 percent since late May, even though Antico pays on time, and his reward points have become harder and harder to redeem. "These are back-stabbing things," says the 37-year-old Massachusetts resident and technology analyst. "Customers are paying to keep the banks afloat, and the thanks we get is 'Go screw yourself. Here's a higher rate.' "

How high? A recent report done by the Safe Credit Cards Project at the Pew Charitable Trusts found that over the past four months, credit-card companies have routinely tacked on new fees, altered account terms, and jacked up interest rates, sometimes to as high as 30 percent. The industry says such hikes are necessary because it is assuming greater risk by extending credit in bad times. That may be the case, but President Obama's new credit-card legislation, which passed in May and takes effect in February 2010, is supposed to stop credit-card companies from unfairly increasing rates or fees, targeting consumers under the age of 21, and hiding behind contracts filled with hard-to-understand legal language.

While the law may accomplish all this, the eight-month lag time between its passage and its enactment has given credit-card companies more time to look for loopholes, say consumer advocates—so much so that Congress may take action again. Chairman of the Senate banking committee Christopher Dodd has proposed freezing the interest rates and fees on existing accounts until February. On Nov. 4, the House of Representatives passed on a bill that would make the credit-card legislation go into effect immediately unless credit-card companies agree to freeze interest rates and fees.

In response, the credit-card companies and their lobbyists say they need more time to comply with the law, and that they too are suffering in this poor economy. "The interest rates are rising because of customers' rising risk profiles and the generalized risk in the economy," says Scott Talbott, a lobbyist for the Financial Services Roundtable. "There's a direct correlation between the strength of the economy and the credit-card interest rates." Another industry spokesman argues that experimentation with fees and rates, in the end, is a helpful thing. "Lots of the innovation is good," says Nessa Feddis, senior counsel and vice president of the American Bankers Association. "The competition is driven by how consumers respond."

And consumers are definitely responding. Antico says he now uses his credit cards less frequently and pays off the full amount each month. Twenty-nine-year-old Tim Mikulski of Washington, D.C., recently transferred the balance of his old credit card to a new one with a zero percent interest rate and, for those who have good credit, there's always the option of switching cards or negotiating rates. A recent report by the Pew Charitable Trusts showed that credit unions are now offering interest rates that are 20 percent lower than those of bank-issued cards. "Credit unions have not been under the same pressure to grow," says Nick Bourke, manager of the Pew Safe Credit Cards Project. "Growing big and quickly is what has left banks [free] to charge such high penalties."

If consumers feel unfairly targeted by their credit-card companies, consumer advocates say they should act rather than simply mope. First, people should watch their statements closely and contact their banks if they see interest rates rising or additional fees tacked onto their monthly statements. In other words, there's room to haggle. "If you have a strong credit score, some institutions are willing to say, 'You're an exceptional cardholder for us,' " says Adam Levin, founder of Credit.com and a former director of the New Jersey Division of Consumer Affairs.

If your credit is less stellar, Levin advises consumers to cut their spending and switch up which credit cards they use from month to month rather than canceling cards outright. "You don't want the companies to think the person isn't using their credit lines," Levin says. "And if you close a longstanding account, it impacts ... your credit history."

Pursuing the issue politically is another route, says the Pew's Bourke. He urges consumers to call their congressional representative or senator if they feel as though their credit-card company is engaging in unfair practices, especially since Congress is currently considering moving up the date of the legislation.

Finally, if a new interest rate or fee really rankles consumers, credit-card industry officials say consumers are welcome to opt out and stop using that particular card. It's a tough sell—breaking up with one's plastic—but sometimes breaking up is the only thing to do.