

Debunking Credit Card Myths

Myth: Customers must accept interest rate changes by card issuers.

Facts: A major goal of the CARD Act was to protect customers from interest rate increases. If customers are unhappy with their interest rates or the terms and conditions of their card, there are thousands of competing issuers that may be willing to accept their business. Most importantly, the CARD Act prohibits interest rate increases on existing balances, except in limited circumstances.¹

- The CARD Act prohibits interest rate increases during the first year, and promotional rates must last at least six months after being offered.
- The CARD Act generally prohibits interest rate increases on existing balances, and also gives consumers 45 days notice of interest rate changes on future balances. The customer then has time to decide to accept the change, find a new card, or reject the change, closing the card and paying off any remaining balance at the original interest rate.
- In the highly competitive credit card market, consumers have the option of finding another credit card and transferring their outstanding balances to competing card issuers. The power of “choice” that consumers possess cannot be overstated.
- As of August 22, 2010, credit card issuers must re-evaluate any interest rate increase made on an account since January, 2009 and determine if the higher rate is still warranted.

Myth: There are no limits on the fees issuers can charge.

Facts: Consumers are in complete control over how they use their credit cards. By choosing the right card for their needs, paying their bills on time, and avoiding purchases they cannot afford, consumers can **completely avoid** finance charges, late fees, over-the-limit fees, and other penalty fees. Furthermore, as of August 22, most late payment fees cannot exceed \$25, and no fee can exceed the dollar amount of the infraction. Inactivity fees are also now prohibited.

- The CARD Act and the Federal Reserve’s new disclosure regulations provide customers with more time to pay bills and rules that require a uniform format and consistent terminology across credit card, applications, account opening statements, and periodic billing statements, helping consumers understand their terms and avoid fees.

¹ Exceptions apply for accounts where payment is more than 60 days late, the card carries a variable interest rate tied to a public index, an introductory or promotional rate expires, or the customer fails to comply with a workout agreement.

- There are more than 6,000 card companies all competing for the same customers. Consumers have the option of shopping around for credit cards that suit their particular needs.²
 - Consumers are in the best position to know what they can afford, what other debt obligations they may have, and how to best manage their finances.
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Myth: The recent credit card reforms do nothing to improve disclosures.

Facts: Based on several years of rigorous consumer testing, the Federal Reserve in December, 2008 adopted sweeping new disclosure rules for credit card issuers. These new rules, which took effect July 1, 2010, coupled with further changes required by the CARD Act, significantly streamline disclosures so that the information being presented to customers is readily available and easy to understand.

- Card companies are required to disclose certain important information in table format with every billing statement; including the due date, ending balance, the minimum payment due, how much a late payment fee would be and a warning about late payments.
 - Billing statements must also include a table indicating the year-to-date total of fees and interest the customer has paid.
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 - Customers receive with their card a one-page summary of their account agreement highlighting the most important terms such as the APRs, costs for balance transfers and cash advances, important fees such as any annual or penalty fees; and a URL address where the customer may go for more information. All applications must also provide the same credit card information in a table format so it is easier to shop for and select a card.
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Myth: Most bankruptcies are caused by high levels of credit card debt.

Facts: Most bankruptcies in the United States are actually triggered by life crises such as divorce, job loss, and uninsured illness.³ During times of crisis, consumers often use credit cards as their only option to help bridge the financial gap caused by these events, but credit card balances stemming from such events represent a relatively small portion of the individual's overall debt burden.

² GAO-06-929, "Credit Cards: Increased Complexity in Rates and Fees Heightens Need for More Effective Disclosures to Consumers," September 2006, 92-93.

³ Board of Governors of the Federal Reserve System, "Report to the Congress on Practices of the Consumer Credit Industry in Soliciting and Extending Credit and their Effects on Consumer Debt and Insolvency," June 2006, 26.

- According to the Federal Reserve, though the percentage of families holding credit cards has steadily risen, the household debt service burden has only modestly increased and the vast majority of households pay their revolving debt on time;⁴
- According to the GAO, unpaid interest and fees represent only a small portion of amounts owed by credit card cardholders that file for bankruptcy.⁵

⁴ Id. at 3.

⁵ GAO-06-929 at 56.