# Curing The Credit Epidemic

It's nice to see that a recent bit of congressional jawboning scared a few major credit card issuers into rescinding some of their most egregious practices.

Just before being hauled into a Senate subcommittee hearing, Citigroup, the nation's largest card issuer, announced that it will no longer impose "universal default" on its cardholders. This clause in Citi's credit card agreements allowed the company to boost the interest rate on a cardholder's account at the first whiff of a late payment on any other accounts the person held.

At the same time, Citi also said it would stop its "anytime, any reason" right to boost interest rates whenever it felt like it. Chase also got in on the consumer-friendly act by announcing that it will no longer use the "two-cycle billing method," a system for calculating interest payments that was a huge cost to cardholders who infrequently failed to pay off their balance in full each month.

## Don't Let Them Off the Hook

I'm obviously pleased that the credit card industry took these steps voluntarily, but I hope Congress doesn't think its work is done. Without legislation forbidding these practices, the card issuers are free to change their policies at anytime -- when Congress stops paying attention, for instance -- and reinstitute predatory behavior.

There's plenty more that the credit card industry can be taken to task for. A recent study by the General Accounting Office documented that late fees charged by credit card issuers have risen from an average of about $13 in 1995 to $34 as of 2005. If the penalty had merely tracked with the rate of inflation, the late-fee charge would be about $17.25 today, yet the card issuers have managed to eke out more revenue by doubling that.

This wouldn't be such a big deal if everyone managed to pay their bills on time. But the GAO also reports that about 35 percent of cardholders made at least one late payment in 2005.

## A Matter of Magnitude

There was a supposedly silver lining to the GAO study: Compared to the pre-1990s industry practice of charging a fixed interest rate of about 20 percent, the move to variable rates has led to lower rates for some cardholders. Among accounts at the six largest credit card issuers studied by the GAO, about 40 percent of cardholders are currently levied at a rate under 15 percent.

Fine, but that still means that 60 percent of cardholders pay more than 15 percent. In fact, it can be 30 percent or higher in the most extreme cases. With the prime rate at 8.25 percent, that means credit card issuers have quite a "safety cushion" in terms of what they charge to offset their oft-stated risk of cardholders not paying up.

I'm in no way suggesting that credit card companies should operate as nonprofits, but there's something off-putting about the magnitude of profit issuers generate in the fees and interest rates they charge consumers. That's what needs to be addressed.

**Highest First**

It also needs to be easier for consumers to tackle their most costly debt. It's ridiculous that credit card issuers are the ones who decide which balances a card holder must pay off first.

For example, if you have a balance transfer at a low rate, a balance for new charges that's levied at a higher rate, and a cash advance at an even higher rate, most credit card companies are going to take your monthly payment and apply it to the balance with the lowest interest rate.

It's widely accepted that the best way for consumers to tackle their debt is to make getting rid of their highest-rate debt a priority. Clearly, credit card companies often make that difficult.

**A Lack of Clarity**

It would also be helpful if the credit card companies were required to clearly explain all their fees and interest rates. I was pleased to see that Sen. Carl Levin (D.-Mich.) recently stated that he found the fine print language of credit card agreements unwieldy -- and he's a graduate of Harvard Law School. There's no reason that all the pertinent credit card charges and policies can't be laid out in a clear, one-page chart.

And when is someone going to force credit card issuers to clearly spell out the net effective rate of the interest charged? Right now, the percentage you see on your statement is the annual percentage rate (APR), and it doesn't take into account the compounding of that rate over the course of a year.

That figure is known as the APY, and it's always going to be slightly higher than the APR. Current law allows credit card companies to emphasize the APR and underplay the APY.

**Lapsed Education**

The issue of clear disclosure in truly consumer-friendly language is especially important for credit cards issued to college students. A recent survey by Sallie Mae found that more than half of students accumulate over $5,000 in credit card debt, and a third of survey respondents reported they left school with $10,000 in credit card debt.

A lot of young adults now dealing with their costly card debt feel that they were duped by the issuers. We require high school students to take driver's education and pass a written and driving exam before we allow them to operate a car. But we do absolutely nothing to educate them on how debt works, and instead allow credit card companies to set up booths at freshman orientation and sign kids up to cards with sky-high credit limits. Ideally, every college-bound student needs a quick course on the true cost of debt.

In the meantime, clearer disclosure in credit card agreements as well as the monthly statement would go a long way toward getting the facts in front of new cardholders. That way, they could (hopefully) make more informed choices about how they use their card. That's basic credit education all consumers are due.

**Credit – Suze Orman**