

Office for Financial Success – Financial Tip of the Week
A service of the Personal Financial Planning Department
College of Human Environmental Sciences
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As Promised

You may have received a credit card statement indicating that your minimum payment has increased, although your balance has not. If so, you are not alone. As the new rules being imposed on credit card companies appear on the company's planning horizon, the companies are reacting by making changes to the contracts they have with existing customers. Why? They want to remove customers that do not add to their profits, by making credit terms more difficult, prior to the changes which take effect on February 22, 2010.

What are the most significant benefits for consumers that are intended in the Credit Card Accountability, Responsibility and Disclosure Act?

- Rate increases cannot be applied to existing balances. If you are 60-days delinquent (technically in default) they can raise the debiting rate. They must, however, restore the older rate on the prior existing balances, after you've been current for six months.
- You must be given advance notice of an increase in your interest rate, at least 45 days prior to the rate increase. The new law does not cap interest rates.
- Issuers cannot charge overlimit fees more than once per billing cycle and you must have approved the lender to allow charges over the limit. That is, you will not be allowed to charge over your limit, unless you've agreed to a fee once per billing cycle
- If you are under that age of 21, without proof of income independence or a cosigner over the age of 21, you cannot receive a credit card. (Do not borrow from pawnshops or payday lenders, if you cannot be approved for a credit card! Also, do not cosign for your younger friends.)
- No more double-cycle billing, where finance charges were levied against both the current and previous balance. The prior practice allowed lenders to charge interest on the amount that was repaid, in addition to what is still owed.
- You now have a minimum of 21 days to before a payment is due, in contrast to the current practice of 14 days.
- If you make a payment that exceeds the interest owed for the month and you have balances owed under several different interest rates, the excess must be first applied to the balances with the greatest APR.

To counteract these changes, besides an increase in your minimum payment, what other changes in your credit relationship should you look for?

- Higher interest rates (APR) being used to debit your account.
- Fixed interest rates being changed to variable interest rates.
- New or higher fees.
- A reduction in frills (I mean "benefits") that have little to do with your credit; like bonuses, rebates and new offers.

Some complain that these changes, particularly the increase in your minimum payment, are unfair and state the consumer would be better off saving the money (DUH!) or spending the money that is going to

the credit card companies to stimulate our lagging economy (think, ME FIRST!). On the other hand, the industry has been losing money in the midst of the current recession as borrowers have lost the ability to repay, following job losses or slowdowns. For example, Bank of America's credit card defaults accelerated sharply to \$9.6 billion, from \$4.4 billion a year ago, as defaults rose. Moreover, Bank of America added \$2.1 billion to its reserves for bad debts, between July through September, in the event that rising unemployment increases the bank's losses. Yet, for those that are current but deemed to be risky, the changes can be onerous. What should you do?

- Ask for an explanation. You must always be proactive to try to understand any changes and, in the process, you might find that the person at the credit card company might be empowered to overrule the change – for “credit-dissidents”.
- If they don't offer to make the change, fight for it. You can fight with more success if you are a good borrower - you don't have a history of late payments, charging more than your credit limit, or use the charge card often (they make money each time you use the card through merchant fees).
- Help them get to know you. You may be in very secure industry and not likely to lose your job. If there has been a positive change in your income make sure they have that information.
- Think about what you want before you call. You cannot successfully negotiate, if you don't know what you want and why you deserve to get it. What is most important to you, a lower minimum payment (you must be a new reader of the Tip) or a higher credit balance to provide you access to fund to support your business or other productive venture?
- Never be afraid to ask for the person's boss. Sometime that tactic can move a consumer affairs employee to take action or, perhaps, the “higher-up” will be able to make a deal and be willing to do so quickly, as they've other more pressing issues than you.

As I indicated last week, consumer credit use is down from last year and many card holders have closed their accounts or paid off their balance. Truly the banks are in financial difficulty – mostly their fault – and consumers are in difficulty – mostly their fault if they have over borrowed for unnecessary purchases and not their fault, if they have been caught in the backdraft of the current economic inferno. Taken together, we're all in a difficult situation, where we are working hard to restore the financial success of our economy. This week, Warren Buffett's company, Berkshire Hathaway purchased the remaining 78% of Burlington Northern Railroad that Berkshire did not already own. When explaining his \$34 billion dollar investment, Mr. Buffett, consider by many to be the world's leading investor, replied, *“Berkshire's \$34 billion investment in BNSF is a huge bet on that company, CEO Matt Rose and his team, and the railroad industry. Most important of all, however, it's an all-in wager on the economic future of the United States. I love these bets.”* What else can we do, but agree?

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