

## Office for Financial Success – Financial Tip of the Week

A service of the Personal Financial Planning Department  
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### **CREDIT CARD TRAP WIDENS ...**

Credit card companies are notorious for many of their “business” tactics. Many consumers [often students] fall prey to various credit card traps. Many of the more common ‘traps’ are well documented – others, not so much ... I want to take the opportunity this week to talk about the more common [as well as new] traps. This is not intended to be an exhaustive list. My initial intent was to write about the most recent trap I’ve read about (Trap #10) – as I started, however, I thought it might be also beneficial to remind you about some of the other more common traps as well.

- 1. FEES.** Fees continue to become an ever-so-important part of a credit card companies revenue. The most common fees include: over-the-limit, late payment, convenience check and balance transfer fees. According to Carddata.com, over-the-limit and late fees have risen 138% and 160% respectively over the past 10 years.
- 2. PENALTY RATES.** More and more companies are becoming less forgiving of late payments. Bank of America, Citibank, and other notable card companies currently raise rates to 30%+ for a single missed payment! OUCH.
- 3. INTRO OFFERS.** Most people are aware of the tactic used by companies to lure in customers with a low rate offer for a short period of time – most people aren’t aware of the cards terms once the intro period expires.
- 4. USING A CARD WHERE YOU’VE TRANSFERRED A BALANCE.** If taking advantage of a intro rate or balance transfer “special” be certain not to use the card for other purchases – your payments don’t go to your higher rate purchases, the payment will go to the ‘special rate’ portion of the balance.
- 5. CONVENIENCE CHECKS.** These are awfully enticing – the checks often come made out to you and advertise that you can use them for anything. The catch? Most charge cash advance rates (~20%), most charge an average transaction fee of 3% of your check amount, and you normally will lose your grace period [even if you pay in full at the end of the month]. Not a great deal in most instances.
- 6. UNIVERSAL DEFAULT CLAUSE.** A tactic initiated in recent years that creates penalty rates not only in the instance where you miss a payment with that particular card. In this agreement, the card is entitled to raise your rates even if you miss a payment elsewhere!
- 7. “YOU’RE PRE-APPROVED”.** This ‘announcement’ makes many feel warm and fuzzy. The reality? All this means is that the company has reviewed your credit report and won’t reject your application based on that information. If you apply for the card, you can still be turned down because of insufficient income or other reasons that won’t be reflected within your credit report.

**8. BAIT AND SWITCH.** I've got a credit card that I use to obtain benefits – cash back on gas and other purchases, etc. If someone else were to apply for that card [or any other credit card requiring someone to have excellent or well established credit], instead of being turned down, on the application, there will be a statement where you are essentially giving permission to the CC company to give you their 'base' card if you are turned down for the card in which you are applying.

**9. DECREASING MINIMUM PAYMENTS.** One of the most financially rewarding tactics (for the CC company) is to decrease your required minimum payment as your balance decreases, essentially keeping you in debt longer. This is a smart tactic on their part because many people that can't afford to pay the balance in full will simply pay the minimum payment. This required payment will decrease over time, extending the repayment period and interest paid over time.

**10. NO MISSED PAYMENT PENALTY RATE.** I'm sure this heading is perplexing. The idea of an interest rate going up because of missed payments is rational. But is it legal for a rate to go up for someone that doesn't miss any payments? That's what I've been reading recently. More and more "savvy" consumers in past years have taken advantage of 0% balance transfers, intro offers, and other "deals." What many consumers saw as a loophole is now beginning to be closed by CC companies. Smart Money magazine wrote of an individual with what most would consider near perfect credit (790 credit score) – never missed a payment, never over the limit ... He carried \$8,000 on a credit card because he was taking advantage of the 0% rate for life offer. It was obviously quite a shock to open his statement and see a rate of 29.99%! Apparently, his card company viewed him as a higher credit risk because of his debt and thus, according to the card agreement, had the right to bump him to the 'default rate' ... Normally, default rates are triggered by missed payments, but apparently, high balances can also trigger a default rate [due to higher risk on the part of the company]. A 2005 study by Consumer Action found that 90% of card issuers would use a universal default rate hike if a customer's credit score decreases, 86% would do so if they paid a mortgage or any other loan late. Nearly half (43%) would hit you with universal default if they decide you have too much debt, while 33% would do it for the exact opposite reason: too much credit available. You can see a rate hike even if all you do is get a new credit card (33%) or shop around for a car loan or mortgage (24%). BE CAREFUL – THE CREDIT CARD TRAP IS WIDENING!