Banks Finding More Ways Around Credit Card Reform Law

June 2, 2010 - The Credit Card Accountability, Responsibility and Disclosure Act, which Congress passed last year was supposed to reign in many of the practices used by credit card issuers to increase their fees. As creative as the law was, banks are being even more creative in the way their attempts to circumvent it. The result is that there are a number of new banking practices which may not violate the letter, but which certainly violate the spirit of the law. Here are few of them that the public needs to be aware of:

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(function() {
var s = document.createElement('SCRIPT'), s1 = document.getElementsByTagName('SCRIPT')[0];
s.type = 'text/javascript';
s.src = 'http://widgets.digg.com/buttons.js';
s1.parentNode.insertBefore(s, s1);
})();
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Finance Charge Rebates

The new law places strict limit on when lenders can increase interest rates on existing balances. Before the law went into effect, some banks raised interest rates on existing cardholder balances to nearly 30% and then offered rebates to consumers who paid the balances on time. Cards are also being offered to new customers at exorbitantly high interest rates with the same type of rebate offer.

Because the banks state that they can end the rebate program at any time, customers with this type of card are at a real risk of being asked to pay for their purchases at the highest interest rate allowed by their card agreement.

Credit Card Processing Fees - Pre Activation

The new law limited annual fees on credit cards to be no more than 25% of the line of credit for the first year. Some low-credit-limit cards were charging very high annual fees. These are now being replaced with an application processing fee which is charged before the account is opened and which appears on the first bill.

Increased Minimum Payments on Promotional Interest Rates

Some banks are raising the minimum payment on cards carrying balances with promotional interest rates. Promotional rates are offered by a number of credit card companies to attract new customers.

In some cases, lenders are telling consumers that they can get around the increase in monthly minimum payment if they will agree to waive the promotional interest rate they were offered and have their entire balanced charged at the normal interest rate.

Minimum Payment Application

The new law contained language that forced credit card companies to apply payments to the portion of your balance that had the highest interest rate first. The effect of this is to help you pay off your entire balance more quickly on cards that had more than one interest rate associated with them. Now, thanks to bank lobbying, that rule has been softened.

Banks will only have to apply portions of your payment that exceed the minimum payment to the portions of your bill with the highest interest rate. Anything up to the minimum payment will be applied to the portion of the bill with the lowest interest rate first. This means that in order to pay your bill down more quickly, you have to make some effort to pay more than the minimum amount due.

It should also be noted that there is no restraint on how high your lender can raise your minimum payment to be. Under the law, if the bank raises your minimum payment this allows them to apply more and more money to the portion of the balance with the lowest interest rate. This in turn will increase the amount of money that they make from your account.

While there is nothing that you can do with respect to the way minimum payments are applied, ACCESS urges its readers to avoid lenders that use any of the other schemes mentioned above. We will continue to bring you information about problems with the law as we discover them.

byJim Malmberg

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