



The Personal Perspective

Personal Finance Issues You Need to Know

Alarming Credit Card Tricks

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This newsletter brings out the consumer advocate in me with the tricks that credit card companies are now doing. They are finding creative new ways and tricks to get more money out of you. If you're not a very diligent and savvy consumer, you're more than likely to get surprised and downright angry. The line "Buyer beware" has taken on an all new perspective.

Here are five of the sneakiest tricks that credit-card companies are pulling on unsuspecting customers.

1. Applying for a Mortgage? We'll Bump Up Your APR.

Creditors often increase your interest rate when they notice negative activity — say, a late payment or an over-the-limit fee — on any of the accounts that show up on your credit report. This practice, known as "universal default," has become increasingly prevalent during the past few years. About 45% of credit-card providers engage in this practice, according to some recent statistics.

But while universal default has existed for some time. It seems the banks are peering a little too closely into our credit reports and picking on things that we feel are pretty insignificant and could happen to anybody. It makes sense to treat as

high-risk someone who has repetitively been late with payments and has gone over credit limits, but a person going out shopping for a car loan or a new mortgage are activities we all do.

The highest default APR — 35% — is now offered by Merrick Bank, a Utah-based issuer that serves more than 555,000 cardholders. Runners up were Citibank (C), Bank of America (BAC) and Provident Financial (PVN), with 29.99%. (At a congressional hearing this May, Citibank said it now notifies consumers before increasing their interest rate, and allows them to opt out of the increase and continue using the card at the old rate until the card expires.)

2. Beware of Two-Cycle Billing

Two-cycle billing is a sneaky and complicated practice. It affects people who usually pay off their balance in full each month, but end up in a situation where they have to carry a balance for one or more months. This is a likely scenario around the holidays, for example, when holiday presents add up and people find themselves unable to pay the whole bill at once. A cardholder in this situation will end up paying more in interest than with a credit card that doesn't have a two-cycle billing.



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Here's how it works. Banks usually calculate monthly interest charges for each billing period based on the average daily balance. So let's assume that your billing cycle goes from the first to the 30th of the month, and that you had a balance of zero for the previous month or months. On July 10, you made a \$1,000 purchase, your only purchase for that month. Your average daily balance for July, then, would be \$666.66 (\$1,000 times 20, divided by 30, since you carried that balance 20 days out of your 30-day cycle).

A card with an average daily billing cycle method of computing finance charges wouldn't charge you any interest on that amount for July, since you started the period with a \$0 balance. But a card with two-cycle billing would, since it calculates your average daily balance for the last two billing cycles. In effect, a two-cycle billing card will assess interest for the 20 days in July after you made the purchase, namely on \$666.66.

Just how much interest you'll pay depends on your interest rate and purchase amounts. In this example, if we assume your annual percentage rate is 18% (meaning you're charged 1.5% a month), your interest charges for January would be an extra \$10. But what if your purchase was \$10,000 — say you paid a medical bill or bought new furniture? Two-cycle billing would cost you an extra \$100.

"That's where it gets you. It's potential to affect you in a limited number of circumstances, but it can be expensive." My advice to you is to avoid credit cards with two-cycle billing. Simply call up your credit card company and ask them to change your billing cycle to a

calendar month basis. If they refuse to do so, then seriously consider shopping around for another credit card provider since the only reason to deny you this request would be to avoid this potential money-maker for them.

Some of the largest credit card issuers, including JPMorganChase (and BankOne) use this two-cycle billing,

3. Prepare to Pay More

In 2003, banking regulators issued a directive requiring banks to change their minimum-payment formulas over the next few years. The goal? To make people's minimum payments higher to enable them to pay off their balance faster. With minimum payments as low as 2% of the outstanding balance, many consumers were unable to make a dent in their balances and watched their debt soar. Longer term, the new rules will keep more people out of bankruptcy. Short term, we have a difficult situation because issuers have lulled many consumers onto an endless debt-repayment treadmill.

In 2004, 23.8% of all Americans who carried at least one credit card, made only the minimum monthly payment on their cards. Those cardholders who live month to month and see a \$100 minimum suddenly double, what are they going to do?

Beware of the downstream consequence. When credit-card companies find their revenue dwindling as a result of people paying down their debt faster, they will no doubt increase other fees. . . Take it from me, they'll do whatever they can to increase other fees to make up for the difference.



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4. Overseas Rip-Offs

Foreign-currency-exchange fees are also on the rise. Not long ago, many credit-card issuer, particularly big banks, charged fees equaling only 1% of overseas purchases, effectively passing on the 1% that Visa and MasterCard charge the bank for those transactions. Recently, however, most of the big banks, including MBNA, Bank of America and Citibank, have started tacking on an additional 2%. Capital One has also indicated that it will be adding a fee in the near future. American Express charges a flat 2%.

Here's where it gets complicated: Many foreign merchants, especially in Western Europe, offer consumers the option to convert the local currency on the spot and make the transaction in U.S. dollars. The benefit, ostensibly, is that the consumer avoids the foreign-currency-exchange fee. (And in the instances when the merchant's exchange rate is lower than the bank's, you end up saving some bucks.) Here's the sneaky bit: Some card issuers will impose a foreign transaction fee anyway, even though no conversion has been made. Chase, for example, states in one of its term sheets that it charges 3% of the U.S. dollar amount of the transaction, whether originally made in U.S. dollars or converted from a foreign currency.

Before embarking on an overseas trip, ask your creditor to explain its overseas-

transactions fee and specify whether it applies to dollar-denominated transactions. Visa has a handy tool that helps you calculate the effective exchange rate for converting your money when you use your credit card, factoring in the fee charged by the card issuer.

5. If You Don't Use Our Card, We'll Punish You

With Americans carrying up to seven credit cards in their wallets, it's normal that they use only a few of them while keeping the rest for emergencies. Now, some banks are trying to make money from those customers as well.

How? They increase their interest rates, so that when consumers make charges, they pay more in interest. Most people don't realize it until they start charging, since they are not getting a monthly statement and they don't understand what it was about their payment history that justified the increase. People have seen their interest rates double, not because they were late, but just as a punitive charge for the bank trying to reduce its costs.

So, if there is anything you learned from this, take a look at your monthly statement in a little more detail and start questioning and complaining about these charges. The banks will change their habits if enough people complain to them.

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