

NET GAIN



Scoring points for your financial future

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Credit card fees become cash cow

Lenders boost profits with higher charges

By Christine Dugas
USA TODAY

Credit card fees are escalating, and it's no longer just a problem for habitual deadbeats.

Shrinking billing cycles and stricter payment deadlines mean even conscientious bill payers are being penalized.

The result: Last year the industry took in \$43 billion in fee income, up from \$39 billion in 2002, according to R.K. Hammer Investment Bankers. Fees accounted for 35% of industry income last year, up from 18% six years ago.

Examples of fee increases:

► Late fees average \$32 this year, vs. \$27.46 in 2001, according to industry tracker CardWeb.com. For the top 10 issuers, accounting for 77% of outstanding balances, late fees now average \$36.50.

► Over-limit fees are up 17% over three years. The top issuers now charge \$33.50, CardWeb says. Some now charge the fee if a cardholder is

over the limit any day during the cycle, instead of just on the last day.

► Fees by issuers accepting balance transfers have become commonplace; 3% is the going rate, up from 1% a decade ago.

► Fees on large cash advances are nine times higher than they were 15 years ago, CardWeb says. Many issuers charge a 3% fee with at least a \$5 minimum. The cash advance interest rate is at least 19% at the top 10 issuers.

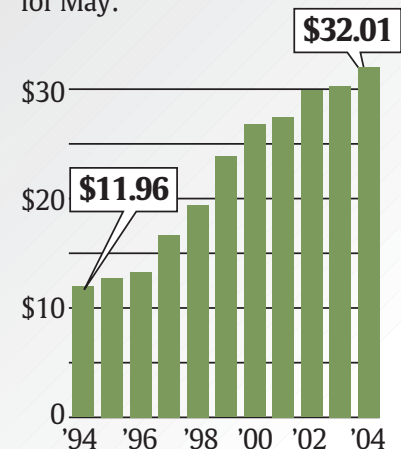
Penalty fees frustrate consumers because it's easy to become ensnared by them. Some card issuers are sending bills later in the cycle, reducing the time to meet the deadline, says Ken McEldowney, head of Consumer Action. "There used to be a three- to 10-day leniency period. Now you have to have your payment in by a certain time of day." Late payments can send interest as high as 21.9%.

Because penalty fees are so pervasive, it doesn't pay to switch cards based on fees alone, McEldowney says.

"However, consumers should avoid a card issuer offering a super-low interest rate laced with potent fees," says Robert McKinley, CEO of CardWeb.com. His advice: "Do not play it to the wire with your credit card payment. You might get your legs blown off with the numerous credit card gotchas in use today."

Fees on the rise

Credit card late-payment fees climb. Average late fees for May:



Source: CardWeb's CardData

By Adrienne Lewis, USA TODAY

Presented by:



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Credit card fees become cash cow

Objectives:

Students will:

- read the article, “Credit card fees become cash cow” for information on emerging trends in the credit industry.
- complete a graphic organizer that compares credit card fees from four different companies.

Concepts:

- Consumer Issues
- Debt
- Credit
- Business
- Profit

Preparation:

- Give each student a copy of the article.
- As a class, discuss the questions on the following page.
- Then, have students complete the graphic organizer “Credit card comparison” on their own.

Activity at a glance:

- Grade level: 9-12
- Subjects: Personal finance, math
- Estimated time for this activity: 1-2 hours

Materials:

- Reading: “Credit card fees become cash cow” (one copy per student)
- Graphic organizer: “Credit card comparison”

Additional resources:

- Goodpayer.com offers a handbook entitled “Learn Now or Pay Later” that helps young adults understand the basics of credit and debt. The book is available in PDF format, or to order a copy, call 800-756-4912.

Credit card fees become cash cow

Discussion:

It used to be that you only needed to pay attention to the due date on your credit card statement to avoid paying a late penalty fee. Now, it's a fee frenzy among U.S. credit card issuers as American cardholders encounter new fees and escalating existing fees. Discuss the following fees and how you can avoid having to pay them:

- ▶ going over the credit limit
- ▶ customer service fees
- ▶ monthly fees
- ▶ annual fees
- ▶ cash advance fees
- ▶ inactivity fees
- ▶ account closing fees
- ▶ balance transfer fees

The fee frenzy is translating into the bottom line for card issuers (and depleting the bank accounts of consumers). According to CardWeb's CardData (<http://www.carddata.com>) cardholder fee income grew three times more than interest income last year. Why have credit card issuers changed the way they make money?

Activity:

Compare four major credit cards that are being marketed to young adults, and compare the fees that are applicable to each card. Using the graphic organizer on the following page, decide which card, if any, would be the best for you. Summarize your decision in writing.

Notes:

- As a consumer, the best advice is to assess the character of the card issuer you plan to deal with. If the issuer you are considering hits cardholders with an above average late fee for being one day late, slams them with an over-limit charge for going one dollar beyond the credit limit or charges clients for making too many account inquiries, then it probably isn't the company for you.
- As a cardholder, carefully read the cardholder agreement. Note that the application disclosure chart does not list every fee you may incur. Pay attention to all correspondence from the card issuer, which may alert you to a forthcoming change in the cardholder agreement. Credit card companies may make significant changes.

State regulations pertaining to credit card fees vary. Some states limit or prohibit late fees, over-limit fees, returned check fees and annual fees. Find out how your state regulates these fees.

Activity extensions:

- Credit card companies may implement policies that result in their customers paying extraneous fees. Two common procedures are to:

1. send the statement so close to the due date that it is difficult for the customer to pay the amount due in time.
2. limit the number of payments per month a customer can make online.

See if you can discover at least three other tactics that credit card companies use to get cardholders to pay additional fees.

Credit card comparison

Type of Card	Over the credit limit	Customer service fees	Monthly fees	Annual fees	Cash advance fees	Inactivity fees	Balance transfer fees
VISA							
MasterCard							
American Express							
_____ (Other)							

Briefly explain your decision: _____
