



*Habitat for Humanity - New York City has initiated a citywide education campaign to raise awareness of predatory lending practices targeted to Habitat homeowners and all low-income New Yorkers. Our goals are to shine a light on deceptive practices and provide better alternatives so New Yorkers keep more of their hard-earned wages for necessities such as food, medical care—and **housing**.*

### **Why Is Credit Card Debt So Severe?**

U.S. consumers charge close to \$2 trillion per year to their credit cards according to a 2006 survey by U.S. General Accounting Office.

Multiple factors contribute to an increase in credit card use and debt. Stagnant wages and a weakening economy with rapidly rising fuel and food prices – and - over the years, some credit card companies have instituted new rules and terms including: interest rate hikes without notice, extra fees for routine transactions (such as paying by phone), pre-paid cards with excessive hidden fees and default rates that skyrocket if you are late paying another creditor.

Such practices contribute to the increasing debt that so many Americans hold. Most at risk are low-income individuals, African Americans, Latinos and single females who often rely on credit cards as an economic safety net.

Among people with credit card debt:

- Cardholders with household incomes below \$25,000 are two times more likely than households earning \$50,000, and five times more likely than households earning over \$100,000, to pay interest rates higher than 20 percent.
- African American and Latino credit card holders are more likely than whites to pay interest rates higher than 20 percent.
- Eleven percent of single women pay interest rates higher than 20 percent compared to 6 percent of single men.

### **What are Some Credit Card Practices to Watch Out For?**

As in all businesses, many credit card companies are honest and aboveboard. But some use practices that often confuse consumers and end up adding on thousands of dollars of credit card debt each year. Here are some practices to watch out for:

- **Interest Rate Hikes for Late Payments:** Many credit card companies raise interest rates when a payment is late, even if it only a matter of hours. These “penalty” or “default” interest rates can top 30%. Companies often send statements close to the due date, which gives customers limited turnaround time.
- **Fees:** Fees can be charged for many reasons: late payment fees, over-the-limit fees, cash advance fees, balance transfer fees, telephone payment fees and

sometimes even fees for buying lottery tickets with credit cards!<sup>1</sup> In 1995 the average late fee was \$13. Today the average late fee is about \$40.

- **Universal Default:** Credit card companies routinely check consumers' credit reports and many will raise the interest rate if there has been a change in their customer's credit score—even if the customer is behind on payments to another lender. Credit score changes can result from activity on another credit card or the addition of new loans, such as car or home loans. These changes can trigger a credit-card interest rate change *even if the consumer has never missed a payment.*
- **Binding Mandatory Arbitration Clauses:** The fine print on many credit card agreements state that in the event of a dispute, the borrower must use the lender's legal representative to settle it. This means the consumer waives the right to an unbiased judge and jury.
- **Retroactive Application of Interest Rate Increases:** When many major credit card companies raise their customers' interest rates, the new rate is applied to the *entire existing balance*, rather than just towards new purchases.
- **Pre-Paid or "Fee Harvesting" Credit Cards:** With advertising slogans stating "*You don't need a good credit score to get a great credit score*" it's no surprise that people with no credit or poor credit often turn to pre-paid or "fee harvester cards."

These cards have extremely high fees that consume most of an already-low credit limit. For example, a card with a credit limit of \$250 could take out a \$95 program fee, \$29 account set-up fee, \$6 monthly participation fee and \$48 annual fee – an instant expense of \$178, leaving a buying power of only \$72. Most consumers are not aware of all of these fees. Thinking they have an available credit line of \$250, as advertised, they spend \$250 on their card and then are slapped with enormous interest rates and late fees for exceeding their available credit amount. Pre-Paid cards are most aggressively marketed to low-income and minority consumers with credit scores under 660.

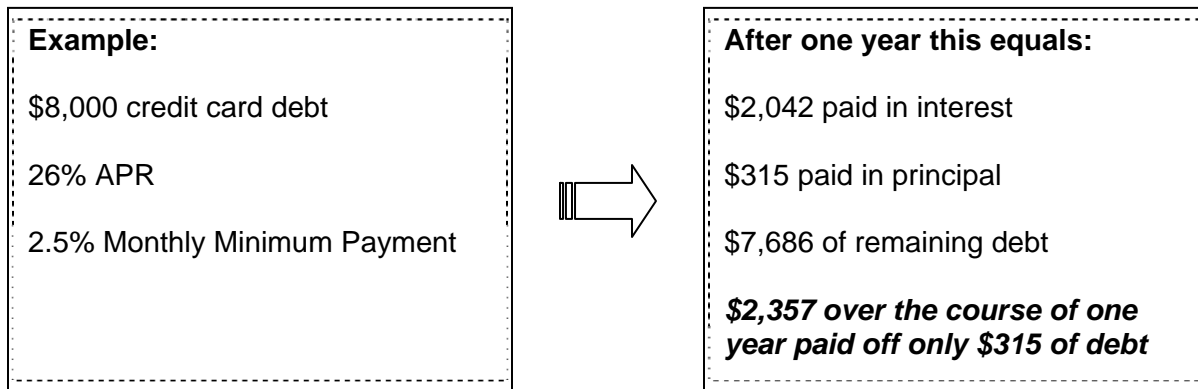
- **Aggressive Marketing:** U.S. credit card companies mail about 4.9 billion solicitations each year. In 2005, consumers used more than 691 million credit cards to charge \$1.8 trillion (today it is \$2.02 trillion), ***but a recent government report found that most people did not understand complex company disclosures about the terms of their credit cards.***
- **Targeting College Students:** College students are a prime target for credit card issuers in an attempt to lure valuable first-time card holders – a population that typically holds no job and has no credit history. Many students do not have the experience to manage this debt and end up with bills that they can not pay at the end of the month. Fifty-six percent of undergraduates get their first card at age 18 and 91% of students have at least one credit card by their final year, student loan provider Nellie Mae reports. By graduation, 56% of students carry four or more cards. The average outstanding balance on undergraduate credit cards is \$3,000.

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<sup>1</sup> Americans for Fairness in Lending: [http://www.affil.org/consumer\\_rsc/credit\\_cards2.php](http://www.affil.org/consumer_rsc/credit_cards2.php)

## What Does Your Credit Card Really Cost?

The average American Consumer carries more than \$8,000 annually in credit card debt.



Clearly, compounded interest escalates rapidly. By paying off only the minimum, you are excessively increasing your overall debt. To see what kind of an impact your payments are having on your credit card debt, visit a credit card calculator online, such as [www.bankrate.com](http://www.bankrate.com)

## What is Being Done to Regulate the Credit Card Industry?

### ***Congress Takes Action: The Credit Cardholders' Bill of Rights***

A pro-consumer bill that would abolish unpopular credit card industry practices, introduced by Representative Carolyn B. Maloney (NY-14), passed a key U.S. House committee recently, moving it toward a vote by the full House.

#### *Bill Highlights:*

The Cardholders' Bill of Rights is aimed at "major industry abuses that unfairly hurt consumers while fostering fair competition and free market values." The proposed legislation would:

- Requires card companies to give cardholders 45 days notice of any interest rate increases.
- Prevents the so-called "universal default" rate increase.
- Gives cardholders time to pay their bills by requiring card companies to mail billing statements 25 calendar days before the due date (14 days is the current minimum).
- Requires that payments made before 5 p.m. EST on the due date are considered timely.
- Prohibits card companies from charging late fees when a cardholder presents proof of mailing his/her bill within seven days of the due date.
- Prevents card companies from charging over-the-limit fees on a cardholder with a fixed credit limit.

To read the full bill text, press release and bill summary visit:

<http://maloney.house.gov/index.php?option=content&task=view&id=1569&Itemid=61>

## ***The Federal Reserve Takes Action: Recently Proposed Regulations***

In addition, the Federal Reserve recently proposed a series of regulations designed to curb credit card practices cited most often by industry critics -- some of the same practices covered by the House legislation. Under the Federal Trade Commission Act, the Federal Reserve, along with the Office of Thrift Supervision and the National Credit Union Administration, have the authority to address credit card practices. If approved, the new regulations would:

- Ban "surprise" interest rate hikes
- Limit fees
- Give consumers a reasonable time to make their monthly payments
- Ban fee harvester credit cards if the fees consume the majority of available credit on an account

The Federal Reserve received more than 56,000 public comments on the proposed rules, the second highest number of comments ever filed regarding a Federal Reserve proposal. Federal Reserve staff members will now review the submissions and draft final wording, which must be approved by the board. The board is likely to take final action on the proposals by 2008 year's end.

To read more about the proposed regulations visit:

<http://www.federalreserve.gov/newsevents/press/bcreg/20080502a.htm>

## **What Are the Best Strategies to Avoid Credit Card Debt?**

1. **Shop around for a good card.** Look for cards with:
  - An APR of 15% or lower
  - No annual fees
  - No universal default clause
  - No clauses stating that rates can be changed "at any time for any reason, including no reason."

*Read the fine print on teaser rates that offer a 0% APR. Many low introductory rates skyrocket when they expire.*
2. **Pay off more than the lowest payment possible.** The longer it takes to pay off the balance on a card, the more interest will accrue. Consumers should try to pay off balances in full each month.
3. **Make payments as early as possible each month.** Don't wait until the last minute. A payment that is lost or delayed in the mail can result in late charges and a significant jump in interest rate.
4. **If the interest rate has gone up or the customer has received a penalty fee—call the credit card company and ask to have it changed.** Companies are often receptive to making allowances. It is cheaper for the credit card company to lower your interest payment and remove the penalty fee than it is to lose a customer.
5. **If there is a mistake on a credit card bill or a charge the consumer did not make—report it to company immediately.**

## What Action Should Consumers Take When Credit Card Problems Arise?

- **If a consumer has a problem paying—seek help.** Consider working with a credit counseling service. But check the counseling service's reputation carefully—there are many fly-by-night operations. Watch out for “debt consolidation” plans. Be wary of “debt management plans” that require an upfront payment that goes only to the service (not to paying debts). See the list of certified and trustworthy credit counselors below.
- **File a complaint:** If the consumer experiences difficulties with his or her credit card company and they are not resolved, file a complaint with the Office of the Comptroller of the Currency, which regulates most credit card companies. The website is: <http://www.occ.treas.gov/customer.htm>, or contact a Customer Assistance Specialist at 1-800-613-6743, weekdays from 8 am to 8pm.
- **Find a lawyer:** If legal help is needed, contact the National Association of Consumer Advocates (NACA) for a list of member attorneys. Go to: <http://members.naca.net/findanattorney.php> or call (202) 452-1989

### Here a list of trustworthy credit counselors:

**East River Development Alliance:** Building Wealth Academy

**Contact:** Building Wealth Academy Program Coordinator

**Address:** 12-11 40th Avenue, Long Island City, NY 11101

**Phone:** 718-784-0877

**Website:** [www.erdalliance.org](http://www.erdalliance.org)

**Hours:** Varied class schedules; call for registration/dates/times.

**Services:** *Money Management Class - Credit repair, budgeting, and setting financial goals. Serves all New Yorkers.*

*Financial Counseling - Individuals can meet with a credit counselor and create an action plan to repair credit and meet financial goals. Hosts a series of other workshops and classes; must call for more information.*

### Single Stop

**Address:** Multiple locations in every borough

**Phone:** 212-844-3528

**Website:** [www.singlestop.org/locations.html](http://www.singlestop.org/locations.html)

**Services:** *Comprehensive resources that assist in financial, legal, benefits and other social issues. Free one-on-one program services and counseling throughout New York City. Financial counselors assist with credit repair, budgeting, establishing financial goals, etc.*

### Accion New York

**Contact:** Irene Dominguez

**Phone:** 212-387-0377 x357

**Email:** [idominguez@accionnewyork.org](mailto:idominguez@accionnewyork.org)

**Website:** [www.accionnewyork.org](http://www.accionnewyork.org)

**Hours:** 9:00 am – 5:30 pm

**Services:** *Provides workshops and seminars in English and Spanish on strategies to build and repair credit. Seminars and workshops are open to all New Yorkers. Call main number or visit website for more information.*

**NEDAP NYC Financial Justice Hotline**

**Phone:** 212-925-4929

**Website:** [www.nedap.org/hotline](http://www.nedap.org/hotline)

**Services:** *Call the hotline regarding discriminatory banking and credit practices. NEDAP can help with credit reporting and repair, unfair debt collections and more.*

**Greenpath**

**Phone:** 1-800-550-1961

**Website:** <http://www.greenpath.com/>

**Services:** *Provides free counseling, a personal budget and action plan.*

**Trinity Debt Management**

**Phone:** 1-800-758-3844

**Website:** [www.trinitycredit.org](http://www.trinitycredit.org)

**Services:** *A Christian debt-consolidation organization. Provides free counseling and credit repair.*

**Additional Money Management Resources:**

[www.creditinfocenter.com](http://www.creditinfocenter.com)

[www.thebeehive.com](http://www.thebeehive.com)

[www.debtadvice.org](http://www.debtadvice.org)