

CONSUMER'S EDGE

CONSUMER PROTECTION DIVISION, MARYLAND OFFICE OF THE ATTORNEY GENERAL

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CREDIT CARD OFFERS: WHAT'S THE CATCH?

The offers fill your mailbox: pre-approved credit cards, low interest rates, 0% interest balance transfer offers, frequent flier miles or rebates, and more. They sound good, but many consumers apply for new credit cards only to find that the low interest rate doesn't last or that the card comes with unexpected fees. To protect yourself: Read the details of the credit card offer before you apply for the card, and make sure you fully understand the terms being offered.

Although the rules require the card companies to make disclosures more easily understood, the details may still be in the small print. You might be surprised at what you find. Below are some things to consider when reviewing a credit card offer:

Interest rates. Under the Federal Credit CARD Act of 2009, your credit card company cannot increase your interest rate during the first year of your account. If the company does increase rates, the new rates will only apply to new charges, and any balance remaining from the first year will be calculated based on the initial interest rate.

There are a few exceptions: Many cards offer a low introductory rate – but credit card companies are only required to maintain the initial rate for six months, and the rate can increase after that time with no additional notice. In addition, if your card has a variable interest rate tied to an index, the rate will increase whenever the index goes up.

If you are more than 60 days late in paying your bill, the credit card company can raise your interest rate, with 45 days' notice, even if you are still within the first year of your account. If you want to use a new, low-interest rate card to consolidate and pay off your higher interest rate debt, in addition to looking at the interest rate, make sure you are aware of any fees that apply. Fees such as annual fees cannot be more than 25% of the initial credit limit. The cap on high-fee cards does not apply to penalty fees, such as penalties for late payments. In general, consumers are urged to pay the balance in full to avoid any charges.

Since June of 2010, the Federal Reserve has stipulated that credit card companies must limit most of their penalties to \$25, unless a consumer has a consistent history of violations. In addition, credit card companies cannot charge consumers multiple fees for violating the same late payment, and penalty fees cannot exceed the owed dollar amount. For example, if a bill is \$10, the penalty fee cannot exceed \$10.

Balance transfer fee. Some cards, even if they offer 0% interest on balance transfers, charge a fee to transfer the balance from one credit card to another. For example, a 4% balance transfer fee on a \$2,000 balance transfer would cost you \$80. And be careful to make certain that the balance transfer plus any balance transfer fee does not cause you to exceed your credit limit.

Fee Notifications. You must be given a 45-day notice of interest rate increases, changes in certain fees such as annual fees, and other significant changes to the account terms. The credit card company must allow you to cancel your credit card because of the fee changes. However, if you cancel the account, while the same interest rates and fees will apply to any outstanding balance, the

bank can subject you to certain limitations, such as paying off the balance in a shorter period of time.

In addition, consumers must be sent a bill at least 21 days before a fixed payment due date. The payment due date must be on the same day each month. The new bill must show how long it will take the consumer to pay off the balance if only the minimum payment is made each month. The bill must also inform the consumer how much the consumer must pay to have the balance paid off in three years. Credit card companies cannot charge higher interest rates on previously existing debt if the consumer continues to pay the bill on time.

Credit limit. Unless a consumer authorizes the credit card company to allow transactions beyond the credit limit, all transactions that surpass the limit will be denied. If you elect to allow over-the-limit transactions and spend



beyond your credit limit, the company may only impose one over-the-limit fee per billing cycle for those transactions.

You're pre-approved. Don't count on it. Credit card companies get your name from credit reporting agencies by paying the agencies for lists of consumers that meet certain criteria. Once you call to accept the offer or send in the form, the credit card company will seek your full credit report and confirm that you meet the criteria. If you don't meet their criteria, the company might decline to issue you a card or send you a card with a lower credit limit.

Credit line. The amount of credit offered may not be available to you. If you look closely, you'll probably see the words "up to" before the credit limit. Depending upon your credit history, you might receive a card with a lower credit limit than you were expecting.

Cash advance fees and rates. Many cards charge a fee for cash advances, or the interest rate for cash advances may be much higher than for credit purchases. If you're likely to use the card to get cash advances, be sure you know what it will cost you.

User rewards. Some cards offer perks such as frequent flier miles or cash back for using the card. Often, these cards charge annual fees or have a higher interest rate than cards that don't offer rewards. If you carry a balance, you might be better off choosing a lower interest rate card even if it offers no rewards.

Card guaranteed in exchange for a fee. Beware of cards that require you to pay a large fee in advance. This may be a scam. Many people have paid up to \$200 for a "major credit card" only to receive nothing, or they received a merchandise catalog along with a card that is only good for purchases from that catalog. Some credit card offers for consumers with poor credit require a consumer to pay a deposit to guarantee repayment. These credit cards help to reestablish credit as long as the consumer pays a monthly minimum balance on time, and keeps the credit account under the limit. Remember, these credit cards also charge fees, and a smart consumer should read all the terms and conditions for a card before applying. If you do not use your card, you are protected by the Credit CARD Act from being charged a non-usage fee.

When You Receive Your New Card. Once you receive a new credit card, read the accompanying credit card agreement to be sure you understand and accept the terms. If you receive a card that was not what you wanted—for example, it has a lower credit limit or a higher interest rate than you were led to believe—you should notify the company that you decline the card. You should read the accompanying card agreement or ask the company for any specific directions on how to refuse the card.

Even if you plan to keep the card, read the agreement carefully. Note what it says about your interest rate and what events might trigger a rate increase; when a late

charge will be applied and how much the late fee is; and if you receive awards such as frequent flier miles, what you need to do to qualify to use your card for these awards.

Watch Out for Changes in Terms. Even if you shopped carefully for a credit card and are happy with the one you chose, there is no guarantee its terms will stay the same. Credit cards cannot change the terms within the first 12 months, with certain exceptions such as interest rate increases, changes in certain fees such as annual fees and other significant changes to their terms. Consumers must be given at least a 45-day notice of these exceptions. Your credit card company might send you notice of the change in terms as a separate notice, or with (or on) your monthly statement. Therefore, it's a good idea to look carefully at your statement each month and any inserts that might come with it. If you do nothing, the new terms will go into effect and you will be bound by them with respect to future purchases. If you choose not to accept the terms, check your credit card agreement and the notice to see what options you have to pay off your card balance.

Avoid falling into the traps of credit card debt! Marylanders can call the Consumer Protection Division at 410-528-8662 or 1-888-743-0023; or visit www.marylandattorneygeneral.gov if they want more information or have any questions. In addition, they may call the Department of Labor, Licensing and Regulation at 410-230-6001 or visit the website at <http://dllr.maryland.gov/finance/consumers>. Consumers may visit the Consumer Financial Protection Bureau for more information about credit cards: <https://www.consumerfinance.gov/data-research/credit-card-data/>

HOW TO CONTACT US

Consumer Protection Division

200 St. Paul Place, 16th Fl., Baltimore, MD 21202

- **General Consumer Complaints:** 410-528-8662
Toll-free: 1-888-743-0023 TDD: 410-576-6372
9 a.m. to 3 p.m. Monday-Friday
www.marylandattorneygeneral.gov/Pages/CPD/
- **Health Consumer Complaints:** 410-528-1840
Toll-free: 1-877-261-8807 TDD: 410-576-6372
9 a.m. to 4:30 p.m. Monday-Friday
www.marylandcares.org
- **For information on branch offices** in Largo, Salisbury, Hagerstown, and a full list of offices across Maryland, visit: www.marylandattorneygeneral.gov/Pages/contactus.aspx

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