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Credit card companies are busy crafting new tricks and traps to bypass both Federal Reserve Board rules and new federal law set to take full effect in late February 2010, a new research report from the Center for Responsible Lending finds. Entitled "Dodging Reform: As Some Credit Card Abuses Are Outlawed, New Ones Proliferate," the report explains why the nation's 80 million families with one or more credit cards continue to be hit with arbitrary, unfair interest rate hikes and fees. [For the full report go to http://www.responsiblelending.org/credit-cards/research-analysis/dodging-reform-as-some-credit-card-abuses-are-outlawed-new-ones-proliferate.html .]

The study examined the practices of issuers that hold over 400 million credit card accounts and found at least eight specific industry practices that flourish despite federal efforts to rein issuers in. These practices make it all but impossible for the average person to determine the real cost of credit card debt. The ability and eagerness of credit card issuers to exploit loopholes in the new federal rules underscores why lawmakers need to pass legislation to create the Consumer Financial Protection Agency, as proposed by the White House and now under consideration by Congress.

The eight practices highlighted in the report include the manipulation of interest rates, the padding of miscellaneous fees and a deceptive policy on late-payment fees. Use of these abusive tactics is widespread and growing, the report finds.

"The Credit CARD Act that Congress passed earlier this year was a big improvement for American families. But our research shows that industry keeps finding clever ways to get around meaningful reform, and we need a regulator focused on making financial products fair," said CRL researcher, Josh Frank, the report's author. [For a short video of Frank discussing the report's findings go to http://www.responsiblelending.org/credit-cards/tools-resources/dodging-reform-video.html.]

The report spotlights a little-known tactic, which CRL calls "pick-a-rate." In this example, a card company tells cardholders their interest rate will be pegged to the prime rate, which until now has usually meant the prime rate on the last day of the last billing cycle. But CRL's analysis of the fine print finds that a growing number of issuers have added language that allows them to pick the highest prime rate in a 90-day period – no longer a single day. This change can significantly raise a cardholder's cost, often without his or her knowledge. This particular practice alone costs Americans $720 million a year and, CRL predicts, could grow to $2.5 billion annually in a few years as the practice spreads.

In addition, all of the top eight credit card issuers have increasingly imposed large late fees across the board for borrowers, even for smaller balances. The marketing around late fees is deceptive. Credit card issuers claim to impose late fees on a sliding scale that charges a larger flat fee for larger total balances. In fact issuers have steadily lowered the amount it takes to be considered in the highest balance category and, consequently, subject to the largest fees. This penalty structure has undergone a fundamental shift since 2003, when a balance of $1,000 triggered a $35 late fee. Since then credit card issuers have lowered the cutoff for the balance that triggers the highest late fee, so that today a balance of $250 is assessed the same penalty fee as a $1,000 balance. The result is nine of every 10 cardholders will incur the largest fee if they pay late. In addition, the average late fee today is $39, while the typical past-due amount is approximately $50.

Other practices that have become increasingly common include imposing minimum finance charges; inactivity fees; fees on international transactions; fees (in addition to interest charges) on balance transfers and on cash advance fees; and variable rates that have artificially high floors.

The Credit CARD Act of May 2009 will stop some of the worst abuses in the industry, but credit card issuers have shown they can nimbly circumvent new rules. A strong Consumer Financial Protection Agency would provide common-sense rules on credit cards and could respond to abuses quickly as they surface, before they become widespread.

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