Article from the New York Times online

Credit Card Buyer Beware

The federal agencies that are supposed to regulate the banking and credit card industries have failed utterly to keep pace with deceptive and unfair practices that have become shamefully standard in the business. As a consequence many hard-working Americans who pay their bills are mired in debt and in danger of losing whatever savings they have, and perhaps their homes. Congress, which sat on its hands while the problem got worse and worse, needs to rein in this sometimes predatory industry.

The scope of the problem was laid out in Congressional hearings this spring held by Senator Carl Levin, the Democrat from Michigan. According to testimony, one witness exceeded his charge cards $3,000 limit by $200 triggering what eventually amounted to $7,500 in penalties and interest. After paying an average of $1,000 a year for six years, the man still owed $4,400.

That experience has become all too common as the credit card industry has stealthily adopted methods designed to maximize burdensome penalties and fees, while ratcheting up interest rates as high as 30 percent. Companies bombard unwary consumers with teaser packages that promise very low interest rates to start, while reserving for themselves the right to raise rates whenever they choose. The details are buried in deliberately arcane contracts that run 30 pages long and that even lawyers have trouble understanding.

Congressional investigations and studies by consumer advocates have exposed other unsavory practices. Some card companies apply penalty rates retroactively to purchases that were made before the penalty was incurred or in some cases to debts that were even paid off. As one Congressional witness pointed out, the credit card industry is the only one allowed to increase the price of a product after it has been sold.

Under a provision known as universal default, a cardholder who pays a credit card company faithfully can still be hit with a high penalty interest rate for missing payments with another creditor. In another despicable tactic known as double cycle billing, a cardholder who pays $450 of a $500 balance is charged interest on the entire amount as opposed to the unpaid balance.

State usury laws would once have precluded many of these practices, but those have been preempted by federal regulations that are increasingly designed to make banks and credit card companies happy rather than protect consumers. A bill introduced by Senator Levin would limit penalty interest rates to an additional 7 percent above the previous rate. It would also prohibit retroactive penalties and double cycle billing, and it would limit the amount of fees companies could charge customers who exceed their credit limit.

Passing the Levin bill would be a good start. But Congress needs a comprehensive approach to this problem. Lawmakers need to ban deceptive card offers outright, strengthen federal oversight and toughen truth-in-lending laws. Meanwhile, American consumers should think long and hard before they accept credit card offers that are too good to be true.