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Credit Card Users: Watch Out Now

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With the CARD Act limiting some undesirable practices, credit card companies are contemplating their profitability margins and becoming creative. Watch out for these rather hidden changes:

1. HIGHER RATES

Before the implementation date of the CARD Act approaching (February 22, 2009), credit card issuers know they are severely restricted to raise interest rates after that date, So they raise rates before that date. In addition, be on the look out for:

- **"Simplified Rates and Terms":** Do not be fooled by credit card advertisements touting "simplified rates and terms". In fact, credit card issuers might announce charging the same interest rates for purchases, cash advances and balance transfers. What the credit card issuers do not tell you is that the interest rate they charge on all those services and products are relatively much higher.
- **Higher Rates Still Go Up:** However, the higher rate might very likely to go up, as the prime rate goes up. In fact, devil is in the details.

2. FIXED RATES TO VARIABLE RATES

We all remember how variable rate mortgages substantially contributed to the financial meltdown. Now, we should be extremely cautious as credit card issuers over the past year or so surreptitiously moved from fixed rates to variable rates. These variable rates are tied into prime rates. This means variable rates could go higher, although the CARD Act relatively protects consumers by requiring credit card issuers to notify consumers 45 days ahead before any change of terms. But, still, this is a serious issue.

3. ANNUAL FEES

Now, most credit cards offer might include annual fees, as credit card issuers look for ways to recover some of their losses amid tighter credit and regulatory environment.

4. USAGE FEES

Since card issuers know consumers do not like to pay annual fees, they may tie your card usage to card fees. This means if you do not use your card as much as a specified threshold, you will be slapped with a usage fee.

- **Lose-Lose Situation:** The usage fee is a lose-lose situation for consumers. The reason is if consumer do not use their credit cards, they will have to pay usage fees. If consumers use their credit card up or above the threshold to avoid penalized for usage fees, they will pile up bad debt with high interest rates.

5. REWARD PROGRAMS

The other way to recoup loss would be to make it harder for consumers to take advantage of reward programs. Credit card companies know consumers love reward programs, so what they could to avert a public disaster, would be to:

- Impose fees to redeem points.
- Make rewards more expensive.
- Shorten the shelf life of reward programs.

NOTE

Much of what was discussed here applies only to consumer credit cards. For a discussion of business credit cards, you could read my earlier blog: How to Use Business Credits with Extreme Caution.

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