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Credit Card Companies Racing To Increase Profits Before Reform Legislation Becomes Law

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Even though Congress passed sweeping credit card reform legislation this month, it does not go into effect for almost a year. That gives credit card companies plenty of time to devise new methods for squeezing profits out of consumers while they still have free rein.

For instance, JP Morgan Chase recently raised minimum payments on many of its accounts from 2% to 5% per month. That means that a customer who has been required to make minimum payments of $300 per month is now faced with paying $750. The accounts Chase targeted were those with the most favorable interest rates, fixed at under 5%. Many consumers feel this change was made in an effort to force a late payment from them, which would entitle Chase to raise interest rates on their accounts. In a story by MSNBC, one consumer stated, “They don’t want people to have 5% loans out forever and ever.”

Chase spokeswoman Stephanie Jacobson essentially conceded that strategy in an email response to MSNBC, stating: “Tens of millions of Chase customer have taken advantage of our promotional low rate financing over the last five years. Most of these loans have been paid back in less than 24 months. However, there have been a small percentage of customers that have not made as much progress in paying down those loans. Our desire is to have these balances paid back in a reasonble period of time.” Jacobson went on to state that the changes affect only about 1% of Chase’s customers; however, that equates to about 1 million accounts.

Bill Hardekopf, who runs LowCards.com, said banks are following through on warnings that credit card expenses for consumers would rise after passage of the Credit Card Accountability, Responsibility, and Disclosure Act.

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"From an issuer standpoint, they are looking at their default rates going up, they are in tremendous economic distress and they are trying to minimize their risk as much as possible," he said. "Issuers feel they need to find ways to make up for revenue they are projecting they are going to lose once the legislation takes effect."

The new federal regulations that take effect next year will limit the ability of banks to change rates unless cardholders have variable rate agreements. Therefore, banks are trying to convert customers from fixed-rate cards to variable-rate cards. For example, Bank of America recently sent notices to cardholders with fixed rates, informing them that their accounts would be converted to variable-rate accounts the next month.

Many consumers may be tempted to transfer their balances from these cards, but that tactic is also becoming more expensive. Transfer fees used to average about $50 to $75. Now, many banks are charging a 5% transfer fee, which would be equal to $400 on an $8,000 transfer.

Of course, the best way to avoid transfer fees, interest rate increases, and changes in minimum payments is to decline the change in terms. This means that the consumer must close the account and not make any further charges, while paying off the balance under the terms of the original agreement. This decision must be made at the time of receiving the notice of changed terms, and action must be taken before the next due date to avoid the new terms going into effect.

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