Surprise Attack: Capital One's Balance Transfer Program

Posted by Steve Berman on Jan. 10, 2012

On Christmas Day, 1776, with morale at an all-time low, George Washington famously crossed the Delaware River, launching a surprise attack on the British and their German mercenaries in Trenton, New Jersey.

The rout of the British forces and their Hessian mercenaries was a pivotal victory for Washington's forces, and according to many historical scholars, a pivotal moment in turning the tide in terms of morale and recruiting.

Washington was credited with the victory thanks to his genius in perfectly timing the attack. He crossed the Delaware on Christmas night, and hit Trenton at 8:00 a.m.

The enemy, tired from a long night of celebrating, were not prepared for the sudden and unexpected attack. Washington's forces quickly won the ensuing battle.

Fast forward 235 years, and I have to wonder if credit-card giant Capital One had the same thing in mind when they came up with their balance-transfer scheme – catch consumers where they weren't looking and when they least expected a surprise.

I am talking about the Capital One Balance Transfer scheme.

Capital One's program was offered as a means for consumers to transfer debts from one creditor to another. In principal, this can be advantageous to consumers by helping them to consolidate debts, or even save money by locking in lower interest rates.

Capital One promised cardholders a zero percent Annual Percentage Rate (APR) for the first year after a balance was transferred. At the same time, the company allegedly told its cardholders that when it came to normal purchases on their cards, they could avoid interest payments so long as they paid the balance on time each month.

On the surface, this program sounds appealing to consumers. For instance, students might use it to reduce the compounding interest on their debt for a year.

However, the way the program actually worked in practice made it very unappealing to cardholders.

Suppose a recent college graduate who has $10,000 in student debt decided to transfer that debt to Capital One. Once the debt was transferred, the cardholder's account reflected two balances. The first balance was the student debt. The second balance, known as the "purchase balance" was the normal credit card debt incurred by using a Capital One card for normal purchases.

Now suppose that after transferring the debt, the cardholder spent $700 over the course of a month, resulting in a $700 purchase balance. The cardholder received a credit card bill and paid $700 to cover the card's balance and prevent interest charges.

The next month, to the cardholder's surprise, the credit card bill reflected a $700 reduction in the student loan debt, but no payment on the credit card debt. Instead, the bill showed interest charges on the balance that the cardholder believed they had paid off.

In other words, instead of applying the payments to the credit card, Capital One applied the payment to the larger, interest-free loans, resulting in interest charges. In some cases, these charges may be as high as 13 percent.

This came as a shock to many Capital One cardholders, who must have felt like the British at Trenton; caught completely unaware, despite paying their bill on time.

We believe that Capital One's program is deceptive and that the company failed to accurately communicate how the program would work to cardholders.

That is why we have filed a class-action lawsuit on behalf of cardholders, alleging that the company violated several consumer protection laws in various states.

Our case will continue to move forward and we hope to force Capital One to pay back cardholders who allege they were deceived by the program.

The lesson for consumers is that you should always ask questions about credit card offers and do your best to read the fine print. If you pay close attention, you can spot some of the more obvious scams.

I sincerely hope that the Consumer Financial Protection Bureau, a new federal agency charged with exposing these scams, will act aggressively in the future.

Unfortunately, though, simply being vigilant is not a foolproof way to avoid scams and credit card companies are adept at exploiting loopholes to bypass regulators. Sometimes, when a credit card company is particularly skilled at deceiving cardholders, legal action may be the only option to recover lost funds.