



# No wonder we're all in debt

**Consumers are often stunned when interest rates are hiked to staggering levels**

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**STATEN ISLAND ADVANCE**

Port Richmond resident Louis Errichiello is still not sure why the interest rates on two of his Chase Visa credit cards jumped to much higher rates this year, pushing up his minimum monthly payments by about \$150 and virtually wiping out anything that was going to pay down principal.

The rate hike prompted at least one late payment in September and an ensuing \$40 penalty, he said, which bumped him just over his credit limit on one card. That triggered yet another fee. The chain reaction has hit Errichiello, a communications technician and father of five, where he can least afford it -- in his wallet.

Errichiello said his credit has been good and he's paid off card balances in the past, but when he asked for help working out a payment plan with his credit card company to help pay off balances totaling about \$12,000, he said he was told he wasn't in enough trouble yet to trigger such help.

"In other words, they let you bleed out before they give you a bandage," he said during a recent interview. "I could have went to a loan shark on the street and got a better deal."

Advocates for reforming the credit card industry say more people are finding themselves in similar predicaments, often because credit card companies can boost interest rates at any time, sometimes for unlikely reasons and without the expressed consent of the card holder. Such aggressive practices are legal, but they are unfair and on the rise, they say. Problems can get worse around the holidays -- when the use of credit soars.

"I think there is a sense that it's an industry out of control," said Sarah Ludwig, director of the Neighborhood Economic Development Advocacy Project (NEDAP) in Manhattan.

## **CREDIT EXPLOSION**

Of the 1,600 credit card calls her organization receives each year, about one a week comes from a Staten Islander like Errichiello feeling overwhelmed by credit card bills, she said.

It's understandable, she added, given the explosion in consumer credit and high cost credit over the last decade -- much of it driven by aggressive marketing. Credit card companies mail roughly 4.9 billion credit card solicitations to Americans each year. In 2005, consumers used more than 691 million credit cards to charge \$1.8 trillion, but a recent government report found that most people did not understand complex company disclosures about the terms of their credit cards.

"People are taking on much more consumer debt than ever before," said Ms. Ludwig.

With it, she added, consumers often agree to fine print terms even a white-shoe lawyer wouldn't understand. They can even unknowingly consent to future changes in their credit card agreement based on their payment history with another credit card or loan.

The online CreditLearningCenter.com called the latter practice, known as the Universal Default interest rate ladder, one of the worst employed by credit card companies. Companies that use the practice can double or triple card interest rates even if the customer has a perfect payment record with that company. Jumps in rates can be triggered if a cardholder takes out a car or home loan, misses a payment or exceeds a credit limit on another credit card.

Walter Burch, editor-in-chief of the CreditLearningCenter.com, said about half of credit card companies employ Universal Default.

"It's a major problem," said Burch, who encourages consumers to look out for the clause in credit card applications and refuse such cards.

## **LATE FEES**

Late fees, meanwhile, have jumped from an average \$13 in 1995 to nearly \$40 today, according to a recent government report, and there are no federal laws regulating the interest credit card companies can charge people.

While New York State caps the amount of interest a consumer can be charged for a credit card here, states such as Delaware, South Dakota and Arizona don't do that. As a result, those areas have become home base for credit card companies to open and export their interest rates to consumers nationwide.

In Errichiello's case, he noticed in May that the interest rate on one of his Visa cards had jumped from 19 to 27 percent. His wife had just given birth to their fifth child and was not working at the time.

In September, Errichiello said he was five days late with a payment on his second card, prompting a \$40 late fee and tipping him just over his credit limit. Then he realized that his interest rate on that card had jumped to a staggering 29.7 percent.

Jessica Iben, a spokeswoman for Chase, could not comment directly on Errichiello's case but said exceeding the credit card limit, paying late or less than the minimum due can trigger rate hikes. She said Chase does not employ Universal Default but sets its own policy for rate increases with a maximum default interest rate of 32 percent.

Ms. Iben said all customers are informed of rate increases through the mail.

"If you do receive a change in terms, card members can call and opt out of that and close the account and pay it off at the existing terms," she said.

## **NEW TERMS**

Errichiello does not recall any notification. Despite that, company representatives told him he agreed to the new terms when he used the card after the changes took effect.

"I want them to stand up and show proof with my signature that I actually agreed to these

terms," he said.

But the credit card company doesn't need such proof. No signature is required, according to the government's credit card regulations.

A September report from the Government Accountability Office (GAO) found that such consumer confusion is common because of an increase in the complexity of rates and fees.

The GAO report said credit card disclosures to consumers were often poorly organized, hard to read and buried important information. As a result, cardholders often failed to understand key terms or conditions that could affect their costs, including when they would be charged for late payments or what actions cause credit card companies to raise rates, the report said.

Credit issuers said the fees and penalties were necessary to protect companies from risk. And the GAO determined that although credit card penalty interest and fees had increased, profits of the largest credit-card issuing banks had generally remained stable over the last seven years and overall interest rates for cards were lower than years past.

But consumer advocates like Ms. Ludwig and Burch believe if companies were truly worried about risky customers, they would better explain their policies to consumers.

"It appears as though there are deliberate things that have been done to almost encourage lateness," said Burch, of the CreditLearningCenter.com. "Credit cards can be useful but they can also be like ticking time bombs, especially when people are vulnerable. What we are trying to do is bring that out to people and tell them they need to be very careful and proactive."

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