



## 5 Credit-Card Pitfalls Everyone Should Know About

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**THESE DAYS, WHEN** a butterfly flaps its wings, a U.S. credit-card issuer raises the annual percentage rate on a consumer's credit card.

At least that's what it seems like, especially based on the findings of the 2008 Credit Card Survey<sup>1</sup> released by nonprofit consumer advocate Consumer Action<sup>2</sup> Wednesday. Of the 22 credit-card issuers surveyed, 17 (including the 10 biggest card issuers) said their policies allow them to increase a consumer's annual percentage rate or change their terms at any time and for any reason.

Thanks to the credit crunch and a growing number of defaults, card issuers are coming down hard on borrowers. Now, even those with a stellar credit score and a solid history of paying their balance on time and in full each month aren't safe. "It could be called abusive, really," says Linda Sherry, a spokeswoman for Consumer Action. "[Consumers] think the issuer can't change the rate on you unless you do something really terrible. But that's not true in the world of credit cards."

Here are five of the latest credit-card pitfalls that Consumer Action found, plus see our sidebar for advice on how to fight them:

**Judging what you *might* do wrong.** Card issuers are quick to punish behaviors that increase a borrower's risk. **Bank of America** (BAC<sup>3</sup>), Digital FCU and **Discover** (DFS<sup>4</sup>) consider "too many credit cards" and "too many inquiries on credit report" reason enough to raise rates. Of course, a drop in your score itself will also merit an increased APR for most issuers. **American Express** (AXP<sup>5</sup>), First Command, **U.S. Bank** (USB<sup>6</sup>), **Washington Mutual** (WM<sup>7</sup>) and **Wells Fargo** (WFC<sup>8</sup>) say "perceived customer risk" could cause them to reduce a cardholder's limits.

**It's not you, it's us.** Card issuers sometimes raise rates based on factors that have more to do with their own financial picture — such as increased consumer defaults and lower profits — than you as a borrower. Of the top 10 card issuers, four (including Bank of America, American Express, **Capital One** (COF<sup>9</sup>) and **Citibank**(C<sup>10</sup>)) said they take factors like market conditions and the economy into consideration when determining APRs.

**One misstep sets off a domino effect.** Make no mistake: Issuers pay careful attention to your behavior with noncredit accounts you hold with them, as well as credit cards from other lenders. Nearly 50% of lenders factor in your payment record and current interest rates with other banks. They include **Chase** (JPM<sup>11</sup>), Citibank, Discover, **HSBC** (HBC<sup>12</sup>), and Washington Mutual. Chase, Bank of America and U.S. Bank also look at your history with their in-house accounts, like mortgages and checking accounts.

**Sneaky credit-limit reductions.** Credit-card issuers look at many of the same factors when it comes to determining your credit limit<sup>13</sup>. Several even reduce limits as consumers pay down debt. "They keep the limit so close to your balance that it hurts your credit score," says Sherry. "It looks like you're using more and more of your available credit balance, when you're really trying to do the opposite." Often, the cardholder receives no notification of the change, which can result in declined charges or exceeding the balance limits. And that, of course, can trigger problems with other card issuers.

**Bad behavior will take ages to correct.** Consumer Action's survey found that with 59% of lenders, including Bank of America, Chase and Citibank, one late payment — even of a day or two — is enough to trigger a sky-high default APR, which average 26.87%. Getting your rates back down to earth, however, is much tougher. Only Pulaski Bank and Trust, a regional bank based in Little Rock, Ark., reduces your rate when the account is current. Most issuers require six months to a year of on-time payments before they'll consider a rate reduction. Bank of America and HSBC told Consumer Action that their cardholders can't ever get back to their regular APR.

## How to Fight Back

One bright spot in this year's survey: Five issuers offer consumers more lenient opt-out policies for broad-sweeping changes in card rates or terms. Capital One, Chase, Citibank, Town North Bank and U.S. Bank allow consumers to reject changes, such as higher APRs, without requiring them to immediately pay their balance in full. (Typically, a cardholder must pay their balance in full and close their account.) Here are other ways to reverse or limit the impact of these credit-card pitfalls:

- **Read monthly statements religiously.** Should your card issuer take advantage of its ability to change terms "at any time for any reason," you'll find out by reading your monthly statement. Issuers often set time limits to opt out, so call as soon as you notice a negative change to your rate or limit.
- **Rejigger available credit.** To get a higher limit reinstated on one card, ask your issuer to lower limits on other cards you have with them, advises Scott Bilker, founder of DebtSmart.com<sup>14</sup>. You can also ask for a credit line increase.
- **Take preventative measures.** A good credit history doesn't protect you from everything, but it's an excellent start. Don't give your lender a reason to change terms, says Sherry. Pay on time, and keep balances below 30% of your limit.
- **Switch cards.** It's helpful to have several credit cards, says Bilker. Transferring balances to and making all future charges on a card with more favorable terms sends a message to issuers that you won't be taken advantage of.

### Also See:

- 5 Ways to Save on a Honeymoon<sup>15</sup>
- 4 Gas-Savings Deals That Rarely Pay Off<sup>16</sup>
- Some Car Renters Socked With \$8 a Gallon Gas<sup>17</sup>

Links in this article:

<sup>1</sup>[http://www.consumer-action.org/downloads/english/Big\\_Chart.pdf](http://www.consumer-action.org/downloads/english/Big_Chart.pdf)

<sup>2</sup><http://www.consumer-action.org>

<sup>3</sup><http://www.smartmoney.com/cfscripits/Director.cfm?searchString=BAC>

<sup>4</sup><http://www.smartmoney.com/cfscripits/Director.cfm?searchString=DFS>

<sup>5</sup><http://www.smartmoney.com/cfscripits/Director.cfm?searchString=AXP>

<sup>6</sup><http://www.smartmoney.com/cfscripits/Director.cfm?searchString=USB>

<sup>7</sup><http://www.smartmoney.com/cfscripits/Director.cfm?searchString=WM>

<sup>8</sup><http://www.smartmoney.com/cfscripits/Director.cfm?searchString=WFC>

<sup>9</sup><http://www.smartmoney.com/cfscripits/Director.cfm?searchString=COF>

<sup>10</sup><http://www.smartmoney.com/cfscripits/Director.cfm?searchString=C>

<sup>11</sup><http://www.smartmoney.com/cfscripits/Director.cfm?searchString=JPM>

<sup>12</sup><http://www.smartmoney.com/cfscripits/Director.cfm?searchString=HBC>

<sup>13</sup><http://www.smartmoney.com/consumer/index.cfm?story=20080226-credit-card-companies>

<sup>14</sup><http://www.debtsmart.com>

<sup>15</sup><http://www.smartmoney.com/deal-of-the-day/index.cfm?story=20080722-5-ways-to-save-on-honeymoon>

<sup>16</sup><http://www.smartmoney.com/deal-of-the-day/index.cfm?story=20080721-4-bad-gas-saving-deals>

<sup>17</sup><http://www.smartmoney.com/deal-of-the-day/index.cfm?story=20080718-rental-cars-gas-prices>

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