The Basics

Credit-card companies' top 10 money-grabbers

The fine print is a license to steal, rigged to trap the unwary with huge fees and rates increases. Know your enemy.

By Peter Davidson, Bankrate.com

Credit cards. It may seem very difficult to get by without them in this day and age, but the fact of the matter is it's becoming more and more expensive to live with them.

That's because credit card companies have managed to stack the deck in their favor, thanks to obliging lawmakers and regulators who have allowed them to gouge consumers for exorbitant fees and unconscionable interest rates.

And you don't have to look hard to find out how tricky they can be.

"Just read the fine print of your credit card agreement," says Ed Mierzwinski, Consumer Program Director of the U.S. Public Interest Research Group in Washington, D.C. "It's a license to steal."

"The industry is out of control; it's getting away with robbery," says Robert Heady, author of the best-selling book "The Complete Idiot's Guide to Managing Your Money."

Robert Manning, author of "Credit Card Nation: The Consequences of America's Addiction to Credit," agrees. "The system is weighted against the consumer," he says.

Top 10 tricks

But knowledge is power, and if you want to avoid getting squeezed, you should be aware of the top 10 money-grabbing tricks credit card companies have up their sleeves:

The universal default penalties. Card issuers regularly check their customers' credit reports for late payments on any of their bills. Any late payment can be used as an excuse to trigger a hike in your credit card's interest rate, even if you have never made a late payment to the card issuer.

A recent study by Consumer Action, a San Francisco-based consumer advocacy group, found that 39% of credit cards had universal default penalties in 2003. This year the figure jumped to 44%.

Bait-and-switch card offers. Direct mail offers generally advertise the issuer's premium card at an eye-popping low interest rate, while the fine print says the company can issue a more costly non-premium card with a higher annual percentage rate if you fail to qualify for the premium card. Just because you apply for a card with a low rate doesn't mean the card that shows up in the mail actually carries that low rate.

Shrinking grace periods. Historically, grace periods -- the time during which your transactions don't accrue interest – were 30 days. They now average 23 days, and some issuers have whittled the grace period to 20 days. Some cards have no grace period at all.

Two-cycle billing. While most card issuers use the standard one-month method to calculate interest charges, some use a method that calculates interest on two previous months' balances.

Companies compute interest charges on your average daily balance by aiding each day's balance and then dividing that total by the number of days in the billing cycle. Some do it on a monthly basis, but others use the average daily balance over the last two billing periods.

If you carry a balance, this usually means that you've lost any grace period on your new purchases. Unless you pay off your balance for two months in a row, the two-cycle method will include the prior cycle's average balance in calculating your finance costs even though you paid off that cycle's balance in full. You don't face that expense with a single-cycle card.

Inactivity charges. Credit card companies don't make money if you don't use your cards. Keeping your card in your wallet could incur a hefty fee, as much as $15 if you haven't swiped your card in six months, but charges may be incurred for shorter intervals.

Late payment fees. A recent study by Vertis, a marketing company that researches consumer credit usage and payment habits, found that 2% of all credit card holders occasionally miss getting their credit card payment in on time. They pay dearly. The national average is $29. MBNA (one of the largest issuers of credit cards), Bank of America and Providian are among the steepest chargers. Their late-paying customers get squeezed $39, according to Consumer Action.

And there's yet another downside to paying late: a higher interest rate. In a 2003 survey, Consumer Action found that just one or two late payments will trigger a higher interest rate.

Over-limit fees. Exceed your credit limit by even one cent and you'll be hit with over-limit fees of $25 to $39. Cruelly, a $39 late fee can then trigger a $39 over-limit fee.

Balance transfer fees. It's the big tease: A rock-bottom introductory rate to transfer your balance, but that tantalizing low rate may come with a steep transaction fee, 3% to 5%, for transferring your balance to their card, which means transferring $1,000 at 4% will cost you $40. "It's really very tricky," says California attorney Howard Strong, author of "Credit Card Secrets." He adds, "They have all these sneaky fees. You need to be extremely cautious."

By the way, last year, the industry took in $43 billion in fee income, up from $39 billion in 2002, according to R.K. Hammer Investment Bankers. The industry's take is expected to increase again this year.

Mandatory arbitration. "If there's a dispute, you may have given up your right to your day in a court of law," says attorney/author Strong. "If that's the case, your only recourse is mandatory arbitration."

Payment allocation. If you're carrying a balance and use your credit card for purchases and cash advances, or you're paying off a promotional rate and then add charges beyond the promotional period, your card company will first allocate your payments to the charges that will earn it the most money. In most cases, that means it will apply your payment to the balance that has the lower rate, thereby allowing the balance with the higher rate to accumulate and compound interest.