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Information for Advocates Representing Older Adults

Advice for Older Consumers About Credit Cards

Credit card debt can cause tremendous financial problems for older adults. Credit card problems are a leading cause of consumer bankruptcy filings. Contrary to popular myth, huge credit card bills are not mostly due to irresponsible overspending. Many consumers resort to credit cards to meet pressing financial needs or due to an emergency. Others find themselves hopelessly in credit card debt due to snowballing finance charges, late fees, and other high fees.

This National Consumer Law Center (NCLC) publication is designed to help elder advocates educate their clients on how to use credit cards wisely.

Credit Card Offers: What to Consider

Credit card marketers mail consumers billions of offers annually. These offers can be very enticing. Many lure consumers with offers of frequent flyer miles, cash back, or points redeemable for merchandise. Others promise special terms, such as 0% interest or no annual fee.

While credit card offers present pitfalls, just saying no may not be a practical solution. It is difficult to get by in our society without a credit card. A credit card may be necessary for travel, for transacting business over the Internet or to place orders by telephone.

But shopping around among competing credit cards can also be tough. Lenders prominently tout rewards programs, but underplay fees and provide vague information about the most important cost of borrowing - interest rates.

Because of abuses by credit card companies in the 1990s and 2000s, Congress passed a law in 2009 called the Credit Card Accountability, Responsibility, and Disclosures Act (Credit CARD Act). This Act bans some, but not all, of the worst abuses by credit card companies.

Suggestions to Keep in Mind When Reviewing Credit Card Offers

1. **Avoid accepting too many offers.** There is rarely a good reason to carry more than one or two credit cards. Consumers should be very selective. Too much credit can lead to bad decisions and unmanageable debts. Opening too many new credit card accounts can also lower credit scores.

2. **Beware of subprime credit cards.** Instead of turning down consumers with bad credit, some lenders will offer them subprime credit cards. But cards offered to consumers with poor credit scores or without credit records generally come with expensive fees, high interest rates, low credit limits, and often lure consumers into paying for unnecessary products such as “payment protection.”

Avoid credit cards advertised as helping with bad credit. They are likely to be expensive and often end up worsening the consumer's credit record. "Fee-harvester" credit cards have low credit limits and come loaded with high fees when the account is opened. The Credit CARD Act restricts fees to 25% of the credit limit during the first year – which is still pretty pricey. But lenders opened up a loophole by charging fees BEFORE the account is opened and they can also hike fees in the second year and engage in other tricks and traps. Avoid these credit cards.

Sometimes lenders offer subprime credit cards as a trick to revive old debts from other credit card companies. Lenders buy up old debts, then offer debtors new credit cards and, when a new account is opened, slap an old debt on the new credit card account. This is a bad deal. Never accept a credit offer in conjunction with paying off old debt.

3. **Avoid misleading "no interest" offers.** Many retailers offer "no interest" credit cards that allow consumers to buy big-ticket items, like a sofa or stereo system, without paying interest for a certain period of time. Some dentists and other medical providers also offer these cards. Another type of "virtual" credit card is online pay-later services that not only offer no interest but even no payments for a period of time.

   The catch with these credit cards, which are called "deferred interest" cards, is that the consumer must pay off the ***entire*** purchase by the end of the promotional period. If not, the lender will charge interest retroactively back to the date that the item was purchased. For example, consider a consumer who bought a $2,500 bedroom set on December 22, 2013, using a card that has a 25% interest rate but a one-year deferred "no interest" period. If s/he pays off only $2,000 by December 22, 2014, the lender will charge nearly $375 interest on the entire $2,500 dating back to December 22, 2013 when the consumer bought the bedroom set – a big interest wallop appears on the next bill.

4. **Look carefully at the interest rate, but remember that it can change.** Consumers should always know the interest rate on their cards and try to find the lowest rate possible. This can be difficult, because credit card lenders are allowed to make vague statements about the interest rate, e.g., "12.99% to 22.99%, based on creditworthiness." Try to find a credit card that offers a clear, firm interest rate.

   Also, lenders usually have several interest rates for a credit card. They constantly change their rates, although the Credit CARD Act bans some types of rate changes. Some important terms to understand are:

   - **APR.** This is the interest rate expressed as an annual figure. Most cards have different APRs for purchases versus cash advances versus balance transfers and other types of transactions.

   - **Variable rates.** Most credit cards use variable rates, which change with the rise or fall of a common index rate (an example of a variable rate might be "U.S. Prime Rate plus 5%"). While variable interest rates can be very confusing, it is important to understand when and how rates change. Also remember that interest rates have been low in recent years, but could shoot up at any time.

   - **Teaser rates.** A teaser rate is an artificially low initial rate that lasts only for a limited time. The Credit CARD Act requires that a teaser rate last at least six months. After that, the rate automatically goes up. A balance built up while a teaser rate is in effect will then grow at a much higher permanent rate.

   - **Penalty rates.** Many credit card contracts, including those that advertise low permanent rates, provide in the small print for an interest rate increase if the holder makes even a single late payment. The Credit CARD Act prohibits lenders from imposing the higher rate on an existing balance unless payment is more than 60 days late. But the new, higher rate will apply to future purchases and cash advances. Penalty rates may be accompanied by late charges or other fees. For a consumer having financial problems, late charges and penalty interest rates increase the debt burden. Even in the absence of financial problems, avoiding missing payment dates by more than 60 days is important to avoid getting slammed with a penalty rate.

5. **Fees, fees, fees.** Other terms of credit may be just as important as interest rates. Credit card companies impose a myriad of fees – late fees, fees for exceeding a credit limit, annual fees, membership fees, cash advance fees, balance transfer fees, and even fees for buying lottery tickets with a card. These fees all add to the cost of a credit card so that a card that appears cheaper with a low APR could end up being much more expensive.

6. **Avoid pricey "add-on" products.** Lenders often try to sell optional "add-on" products to consumers, such as "payment protection" or "identity theft protection." These products can be pricey, and often come with hidden conditions and do not deliver as promised. Don't fall for these offers. Some lenders have been known to trick consumers into signing up for these products. Consumers should examine theirs statement carefully, and if they find they've been paying for add-on products without their knowledge, they should cancel and ask for a refund.

7. **Look for the grace period.** Most credit cards offer a "grace period," a period of time during which, if the previous bill was paid in full, no interest will be applied to the purchase. Note that cash advances usually don't have a grace period. Without a grace period, finance charges begin accruing immediately from the date of a purchase and a low rate may actually be higher than it looks.

   The grace period is critical if a consumer intends to pay off the balance in full each month. Under the Credit CARD Act, lenders must mail monthly credit card statements at least 21 days before the end of the grace period. Longer grace periods benefit consumers.

8. **Always carefully review the disclosure box in the credit card offer and compare it to the disclosure box received when the account is opened.** Lenders must make important disclosures about the terms of a credit card offer in a box, usually on the reverse side of or accompanying the credit card application. Review these carefully. If the disclosure box is on the reverse side of the application, make a copy.

   When the credit card is sent out, it will come with another disclosure box. It is important to review this box, and compare it to the original disclosures. Make sure the terms of the offer – especially the APR – haven't changed.

   It is also important to read the credit contract, which also comes with the card. If any terms are unclear, call the lender for an explanation. A cardholder who does not receive a satisfactory explanation should cancel the card.

9. **If a consumer does not like the terms of a credit card: cancel!** There is no reason to keep a credit card if the consumer doesn't like the terms. The Credit CARD Act gives a cardholder the right to reject changes in terms and instead close an account. Of course, if the card has been used, the holder will still need to pay off the balance.

How the Credit CARD Act Protects Consumers

The Credit CARD Act of 2009 protects consumers against some of the worst abuses by credit card lenders. The most important protections include:

1. **Protections against rate increases for existing balances.** The Credit CARD Act prohibits credit card lenders from increasing the interest rate that applies to an existing balance on a credit card, a practice known as a "retroactive rate increase." Some exceptions to this rule are discussed in #3 below.

2. **Protections against rate increases for future transactions.** Lenders can raise interest rates for future purchases or transactions, but there are certain limitations:

    Notice. Lenders must give written notice before increasing a rate. The increased rate will apply to any purchases or transactions that are made 14 days after the notice is sent. In addition, lenders must wait 45 days from sending the notice before it takes effect. However, no notice is required for increases due to one of the exceptions discussed in #3.

    First-year ban. Lenders cannot raise any interest rates, including on future purchases and transactions, during the first year of an account unless one of the exceptions discussed in #3 below applies.

    Review of rate increases. A lender that increases the interest rate on an account must review the account every six months and should decrease the rate if indicated by the review.

3. **Exceptions.** The Credit CARD Act has several exceptions to its rules prohibiting retroactive rate increases, rate increases during the first year of an account, and notice requirements. These exceptions include:

    Variable rates. If a card carries a variable interest rate, the lender may raise the rate if the increase is solely due to an increase in the "index" rate, e.g., the prime rate.

    Teaser rates. A lender may raise the rate after the expiration of a teaser rate, but only to the post-teaser rate previously disclosed. Also, teaser rates must last a minimum of six months.

    Sixty days late. A lender may raise a rate retroactively if the card holder fails to make a required minimum payment within 60 days after the due date. Even then, the holder may get the old rate reinstated by making minimum payments on time for the next six months.

4. **Minimum payment protections.** When the prohibition against a retroactive rate increase applies, the Credit CARD Act limits how much the lender can increase the required minimum payment. The lender may: (1) use the existing minimum payment terms; (2) give the consumer five years to pay off the outstanding balance at the old rate; or (3) increase the minimum payment to double the principal portion of the payment.

5. **Limits on penalty fees.** The Credit CARD Act imposes limits on penalty fees, such as late payment and over-the-limit fees.

    Reasonable and proportional penalty fees. A penalty fee must be "reasonable and proportional." Generally, this means $26 for the first violation and $37 for any subsequent violations in the next six months.

Over-the-limit opt-in. No over-the-limit fees may be charged unless the consumer has agreed that the lender may approve transactions that will exceed the credit limit.

Limitations on number of over-the-limit fees. Lenders may charge only one over-the-limit fee per billing cycle (usually one month). In addition, lenders may only charge the fee in the next two billing cycles unless the consumer uses the card again, or goes below the limit and then exceeds it again.

6. **Payment allocation.** Any amount paid above the minimum payment must be applied to the balance with the highest interest rate, except in the last two months before a deferred interest plan expires. (Deferred interest plans are the misleading "no interest" cards as previously discussed).

7. **Prohibits unreasonable due date practices.** In the past, lenders often used tactics to trip consumers into paying late so that the lender could impose a late payment fee or penalty rate. The Credit CARD Act prohibits these tactics by:

   - Prohibiting credit card lenders from setting payment cutoff times earlier then 5:00 pm local time at the location where payment is due.
   - Requiring payments due dates to be on the same day each month.
   - If the due date falls on a day when mail is not delivered to the lender, e.g., a weekend or holiday, requiring a payment received on the next business day to be considered timely.
   - Requiring lenders to mail credit card statements at least 21 days before the due date or the end of the grace period.

8. **Prohibits charging for payments unless a live representative is involved.** Consumers sometimes will want to pay online or by phone for convenience, or to avoid missing a payment due date and incurring finance charges. The Credit CARD Act prohibits imposing a fee for paying online or over the phone, except in cases where a consumer requires the help of a live customer service representative.

Understanding Alternative Types of Credit Cards

Secured vs. Unsecured Credit Cards. Some credit card issuers offer cards that require the consumer to provide a "security interest", e.g., deposit cash or pledge a piece of property as collateral, to ensure repayment. Some of these cards can be useful in establishing or rebuilding credit but some are dangerous. All other things being equal, it is preferable if a consumer is able to access an unsecured card, rather than a secured card. Although most credit cards are unsecured, the discussion below lists different types of secured cards to watch out for.

Credit Cards Secured By a Bank Account. The most popular type of secured credit card extends credit that is secured fully or partially by a savings deposit in a particular bank account. If the consumer fails to make the payments, he or she loses the money in the account. These cards are usually marketed as a way to establish or re-establish a good credit record by allowing the consumer to demonstrate the ability to make regular monthly payments. But the consumer is effectively paying to borrower her own money and the cards are not usually a good deal for a consumer who does not need to build a good credit record.

Some secured credit cards may be useful for some who lacks any credit history at all – for example, a recent immigrant or a young person. Some consumers have also had success in rebuilding bad credit. However, some consumers with bad credit have had trouble with secured cards and end up paying high interest, losing their security deposit, and adding another blemish to their credit report. Some secured cards also are subprime cards with very high rates or fees, or other abusive features. These cards are often marketed to consumers with poor credit records as a way to "fix" their problems.

Credit Cards Secured By A Home. Some lenders offer credit cards in connection with a home equity line of credit. Each time the card is used, the balance is secured by the consumer's home. In many cases, home improvement contractors offer these cards as a way to pay for home improvements. Sometimes the initial amount advanced is as much as the consumer's credit limit.

Home secured credit cards are almost always a bad idea. Nonpayment may result in the loss of a family's home. Always beware of home improvement contractors offering credit. Borrowers are likely to find more favorable terms by seeking a traditional home equity credit line from a bank at a lower interest rate.

Credit Cards Secured By Purchases. Some credit card lenders claim to take collateral in items purchased with their card. If a consumer has problems making payments, those lenders may threaten to repossess property bought with the card. In addition, this collateral may affect a consumer's rights if he or she later needs to file bankruptcy. Most threats to repossess such personal property are not carried out because the expense of repossession outweighs the value of used property. Nevertheless, it is a good idea to use an unsecured card instead of a secured card whenever possible.

"Fake" Security Deposits. Some credit card offers will claim that they don't require a security deposit, but then "charge" a deposit to the card. These cards often come with low credit limits, so that the "deposit" eats up much of the credit line. The Credit CARD Act limits these fake security deposits to 25% of the credit limit. Nonetheless, these types of "fake secured" cards should be avoided.

"Convenience" Checks. Another credit offer to avoid takes the form of a check mailed to a consumer's home, usually by his or her credit card company. When the consumer cashes the check, he or she might end up accepting a high interest rate and a cash advance or other fee of 2% or 4% of the balance. The consumer might also get stuck with a big balance on a new account right from the start. It is better to find a reasonable credit card offer and use the new card carefully.

Credit Cards vs. Debit Cards

Debit card transactions take money directly from the consumer's bank account. Merchants accept debit cards, like credit cards, to pay for goods or services.

Although they often look the same, there are important differences between credit and debit cards. Use of a debit card results in the immediate withdrawal of money from a bank account. By comparison, use of a credit card, in effect, takes out a loan that must be repaid only when the credit card bill is due for payment.

Some debit cards with a VISA or MasterCard logo, when swiped at a point-of-sale device (e.g., a card reader at a grocery store or gas station), give the option of using the card as "credit" or "debit." But even if the credit option is selected, the card remains a debit card. By choosing "debit," the consumer opts to provide a PIN (Personal Identification Number) to complete a transaction. By choosing "credit," the consumer completes the transaction by signing his or her name on a receipt for identification. In both cases, money is immediately withdrawn from the consumer's bank account.

There are advantages and disadvantages to using a credit card versus a debit card. Using a debit card reduces the risk of running up a big unpaid balance on a credit card. However, consumers need to make sure that they have not opted in to overdraft "protection" for their debit cards, which can result in an overdrawn transaction being approved and triggering a large fee. Credit cards permit slower repayment – but with interest. That may provide useful flexibility to a cardholder on a tight budget who needs to spread an expensive, necessary purchase over time, but it may also make it too easy to get into and stay in debt.

A consumer's legal right to dispute charges is more limited with a debit card than with a credit card. For example, a charge for a vacuum cleaner that breaks within a week after being purchased from a nearby store may be disputed with the issuer of a credit card when a credit card was used in the transaction. (See NCLC's Consumer Facts "Your Credit Card Rights" for more information.) There are no similar rights when a debit card is used. However, the Visa, MasterCard, and other card networks may provide some voluntary protection in that situation. A consumer's responsibility for losses from a lost or stolen card can also be much greater for a debit card than for a credit card because stricter time limits apply for contesting a charge. (See NCLC's Consumer Facts "Protections for Debit Card and Electronic Transactions" for more information.)

The consequences of an unauthorized withdrawal from a consumer's bank account through a debit card may be worse than the consequences of an unauthorized charge on a credit card. Since the money to pay the debit comes directly out of the consumer's bank account, s/he may temporarily or permanently lose use of that money--effective immediately. Even if the money is later restored to the account, temporary loss of the money may mean that the consumer cannot pay his/her bills or meet other pressing needs and may also cause checks to bounce.

Avoiding Problems: Things to Consider When Using a Card

1. **Don't use credit cards to finance an unaffordable lifestyle.**

2. **In a financial bind, do not make it worse by using credit cards to make ends meet.** Finance charges and others fees will add to a debt burden. However, using a credit card in a period of financial difficulty is preferable to putting a home on the line by taking out a home equity loan.

3. **Don't get hooked on minimum payments.** Consumers who pay only the minimum payment on a credit card could end up paying for 20 or 40 years or even longer. Many credit card lenders have low minimum payments, setting them anywhere from 2% to 4% of the outstanding balance. Making only the minimum payment will pay off a debt very slowly, and will cost much more in interest. Below are a few more examples of the time it takes to pay off credit cards when the consumer pays only the minimum (table assumes a minimum of at least $15). This table also shows how much interest and time the consumer can save by paying an extra $20 in addition to the minimum:

Balance	APR	Minimum Monthly Payment	Total Interest	Time To Pay	Interest saved with extra $20	Time saved with extra $20
$4,500	12%	2%	$ 4,045	20 yrs, 8 mos.	$1,908	11 yrs, 6 mos.
$4,500	12%	4%	$ 1,434	9 yrs, 3 mos.	$386	3 yrs, 11 mos.
$4,500	18%	2%	$11,897	37 yrs, 7 mos.	$7,451	25 yrs., 8 mos.
$4,500	18%	4%	$ 2,574	10 yrs, 10 mos.	$776	4 yrs,10 mos.

Credit card monthly statement usually include a personalized estimate of how long it will take the consumer to pay off a credit card debt if he or she only makes minimum payments, as well as the total interest that making only minimum payments will cost. Make sure to take a look at the estimate.

Consumers may be surprised to see how much they can save by just paying off a bit more every month. Credit card statement usually also include a personalized estimate of the monthly payment necessary to pay off the debt in only three years. The increase may not be as large as it would seem.

Note that the three-year payoff amount changes each month – that is, it's calculated as a new three-year period from each bill. So the consumer would need to stick with the original three year payment amount, not the smaller amount on subsequent bills as the balance goes down (and assuming there are no new purchases).

4. **Don't run up the balance in reliance on a temporary teaser interest rate.**

5. **When it is affordable to do so, make credit card payments on time.** Avoid late fees and penalty rates.

6. **Don't Max Out.** Charging a credit card up to its limit is risky behavior. Not only will it cost a lot in interest if the consumer carries a balance, a credit card account close to its limit will cause a big drop in the consumer's credit score. This may even cause the lender to increase the interest rate on future transactions.

Advice When Behind On Credit Card Payments

1. **When in financial trouble, pay higher priority debts first.** Consumers should resist pressures to make credit card payments ahead of payments on a home or car that could be lost.

2. **Do not move credit card debt up in priority because the creditor threatens suit.** Credit card lenders are notorious for using aggressive debt collection agencies to collect from consumers. Resist their urgings to make credit card payments by using money set aside or in a budget for payments on a mortgage or car loan.[1]

3. **The consumer should call the lender if s/he cannot afford the payments.** If a consumer cannot afford the minimum payment, but can afford to pay something less the consumer should contact each credit card and try to make a payment arrangement which fits his or her budget. The lender might also agree to waive fees, lower interest rates or otherwise change the terms to make payments more affordable.

4. **Don't refinance credit card debt with a home loan.** Don't do it even for a lower interest rate or lower payments. Trading in credit card debt for a mortgage loan risks loss of a home if financial problems continue.

5. **Consider going to a credit counseling agency.** A reputable agency can help, but a choice must be made wisely. See NCLC's Consumer Facts "Tips on Choosing A Reputable Credit Counseling Agency."

6. **Be wary of "debt settlement" and similar offers.** While it may make sense to approach the credit card issuer to seek relief or arrange more favorable terms for a credit card account, unscrupulous debt settlement services advertise aggressively and charge big fees to act as intermediaries between debtors and credit card lenders. Don't fall for empty promises or dangerous advice to stop paying your bills! Remember that there are bad actors out there who only want debtors' money. Some get paid by creditors for help in locating debtors and sizing up their ability to pay. Never pay up front for services that claim your debt will be reduced.

[1] For more information on budgeting and prioritizing debt, see National Consumer Law Center's *Guide to Surviving Debt*.

Additional Resources

National Consumer Law Center, *Truth in Lending* available at http://shop.consumerlaw.org/truthinlending.aspx.

National Consumer Law Center, *Guide to Surviving Debt* available at www.nclc.org/for-consumers/guide-to-surviving-debt.html.

National Consumer Law Center, Consumer Facts “Your Credit Card Rights” available at www.nclc.org/images/pdf/older_consumers/cf_credit_card_rights.pdf.

National Consumer Law Center, Consumer Facts “Protections for Debit Card and Electronic Transactions” available at http://www.nclc.org/images/pdf/older_consumers/consumer_facts/cf_protections_for_debit_card_and_electronic_transactions.pdf.

National Consumer Law Center, Consumer Facts “Tips on Choosing A Reputable Credit Counseling Agency” available at www.nclc.org/images/pdf/older_consumers/cf_choosing_reputable_credit_counseling.pdf.

Consumer Action, Credit Card Survey, available at www.consumer-action.org/news/articles/2010_-_2011_credit_card_survey/.

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