

"Bruce Woods" - 07/30/2008 10:05:05 AM

**Subject:** Regulation AA

### **Gripe #1 [I call it the "company store" scam]**

[From an actual experience with Capital One - though most CC companies operate the same scam.] Let's say that in a typical month, you charge \$1200 and, on a vacation somewhere, you took a 'cash advance' of \$300. Your next month's bill would be \$1200 + the \$300 plus accrued interest on the cash advance which has no grace period. Assume the total is \$1520 including the exorbitant interest of the cash advance thus far. You pay it in full on time. Next month [assuming you charged another \$1200], you get a bill which not only has a remaining balance on the cash advance but also a finance charge! Why? Per the CC company's contorted reasoning, because you charged, say, \$300, between the statement date and the due date, when they got the \$1520, they applied it to: (1) the past due charges of \$1200, the \$300 charged between the statement date and the due date and then \$20 towards the finance charge; in this example, there would be nothing left to pay off the cash advance. So, next month you'll see another bill w/ \$1200 of new charges AND a cash advance balance of \$300 + yet another finance charge. One way to pay off this "company store" type debt is to stop using your card for a month and pay the entire balance + yet more finance charges. The only other method is to pay the CC company WAY MORE [how much more is virtually impossible to calculate] than the 'official' balance the month after a cash advance so that there will be enough left over to pay off the cash advance. Even when you ask a CC rep on the phone, they cannot tell you how much to send. So, the only escape is to, in essence, give the CC company an interest-free loan by grossly overpaying any bills which have a cash advance balance on them. THE SOLUTION: Require the CC companies to use monies received to pay off existing balances on a first incurred - first paid off basis. Additionally, require the CC companies to use customer remittances to pay off existing balances [regardless of how incurred] so as to minimize finance charges & late fees.

### **Gripe #2 [I call it the "50 cent dollar" scam]**

MY Capital One account offers "no hassle" air miles. Sounds good? One mile for every dollar charged is their promise. However, when investigating getting a free airline ticket recently, I found out that Capital One & the airlines use *full fare, no advance basis coach ticket pricing* for the redemption of the "free mileage". Per a trip to Aruba I was planning, through Orbitz, et al, the cost of a coach ticket was less than half of what Capital One would have charged me via mileage redemption. The Capital One coach ticket was well over 90,000 points [over \$900 equivalent]. The price through Orbitz AND the airline itself was less than half. Capital One's inflation rate was far worse than in third world countries; the dollar is now worth about 50 cents with them. After I do cash in my miles [should I live so long] and get a couple of tickets, I'll be looking elsewhere for a better CC deal. {The rewards programs for products & services are similarly rigged with grossly inflated "full retail values" attached to items available for redemption.} THE SOLUTION: Force the CC companies to spell out explicitly that mileage rewards are for unrestricted full [coach or first class] fares with a clear disclaimer that these fares may be far higher than fares one might be easily obtain from the airlines and travel sites/agencies with advance purchases.

### **Conclusion**

Once upon a time a competitive marketplace offered consumers better quality, more choices, better service - all at lower prices over time. Companies would compete to become more efficient and be able to be profitable even if the gross margins were reduced. The credit card companies now compete on a different basis: who can first offer the sneakiest new ways to add fees, late charges and other extras to pad the bottom line; who can jack up the interest rates to 'mafia back alley rates' the quickest; who can pay off key Congressional committee chairmen to keep Congress off their backs; how they can keep

states [like South Dakota] in their palm to assure that nothing unfavorable to them will occur re: interest rates, terms & conditions; how they can continue to coerce merchants [that do business with CC companies] into doing business their way and prevent them from offering lower prices or rebates if cash is used; how they can prevent widespread publicity about how much that credit cards add to the cost of doing business and the overall cost of living; how to continue their stranglehold on businesses such as car rental companies, hotels, etc, which force consumers to use credit cards or not be able to do business with them. The list goes on. I can only imagine what devilry is discussed at CC trade association conferences...and how many Congressmen & Senators are willing puppets to this once benign, consumer friendly industry which has now put the loan sharks to shame in their scope, power and bravado. Everyone has paid a heavy price for the ugly metamorphosis of this industry over the last 30 years. Even as an staunch advocate of capitalistic marketplaces, I now believe that it is time for some much needed major reforms of the CC industry.

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