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It appears that the Federal Reserve has for many years studiously ignored what the banking industry has be doing to unfairly manipulate its credit card operations to the disadvantage of its customers. Please review the following article from Smart Money: 5 Credit-Card Pitfalls Everyone Should Know About By Kelli B. Grant July 23, 2008 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 Survey1 released by nonprofit consumer advocate Consumer Action2 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), Digital FCU and Discover 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 , First Command, U.S. Bank , Washington Mutual and Wells Fargo 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 and Citibank 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 , Citibank, Discover, HSBC, 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 limit13. 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.com14. 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. 10 Things Your Bank Won't Tell You By Jim Rendon July 18, 2008 1. "Our branches are there to sell you, not serve you." In the late 1990s bank branches were considered outmoded relics soon to be replaced by ATMs and Internet banking. But just the opposite happened: In 1998 there were 89,000 bank branches in the U.S.; by 2007 there were 97,000. Why? The industry realized consumer banking was profitable and that despite the predictions of Silicon Valley wonks, the main criterion consumers use in choosing a bank is proximity, says SNL Financial analyst Jennifer Payne. But branches aren't just about convenience; they're a bank's primary sales floor. Brochures for services as varied as retirement accounts and home loans are on display, and everyone from the teller on up is trained to make a sale. That's because in the current low-interest-rate climate, it's harder to generate revenue from interest alone. Many players in the industry have been trying to boost fee- and service-based income, so if a teller sees you have a mortgage, he might suggest you meet with a loan officer to discuss a home-equity loan. Says Greg McBride, a senior financial analyst at Bankrate.com, "The more products a customer has with a bank, the more likely he is to stay with that bank." 2. "Our fees will only go up." With the economy slowing and big losses looming in the mortgage market, banks are looking for reliable revenue streams. Hence punitive fees — for overdrawing your account, say, or using a competitor's ATM — are increasing. The average ATM service charge doubled between 1998 and 2007, and overdraft fees brought in $17.5 billion in revenue in 2006, up from $10.3 billion in 2004, according to the Center for Responsible Lending. Rubecca Hegarty, a married mother of three in Woodridge, Ill., says she often pays upwards of

$100 a month in overdraft fees to Chase, since, like most banks, it changes the order of purchases so that large debts get paid first — increasing the likelihood of incurring fees on smaller purchases. JPMorgan Chase says it does this because big payments like a mortgage are more important to consumers, so they get priority. Revenue from penalties can be addictive for banks, says Harvard Business School Professor Gail McGovern, but "they're going to face problems from angry customers, which leads to big call-center bills, employee dissatisfaction and turnover." 3. "We change our interest rates all the time." Regardless of what your credit card agreement says, you can never be sure how much interest banks will charge you. For example, nearly all cards have a default rate — as high as 30 percent — which banks apply when you've done something wrong, usually after two late payments in 12 months. But some banks have cut that to one, says Curtis Arnold, founder of CardRatings.com. Banks can also change the terms of your agreement, raising rates when they like (though you can opt out and pay off the balance at the old rate as long as you never use the card again). Bank of America did that recently, upping many cardholders' rates from 10 or 12 percent to 27 percent or more, even though they'd done nothing wrong. "There's no clarity on what criteria can lead a bank to raise interest rates," says Robert Manning, director of the Center for Consumer Financial Services at the Rochester Institute of Technology. "It's a black box." A Bank of America spokesperson says the company periodically reviews the credit risk of its accounts and adjusts rates accordingly, adding that in the past year 94 percent have had no increase. 4. "College campuses are a gold mine for us." Students are the customers of the future, and banks are increasingly courting them, sometimes right on campus. More than 120 universities have cut deals with banks to issue student-ID cards that are also ATM and check cards. Schools can make millions from these deals, sometimes even taking a small cut of individual purchases. Students are also a hot market for credit card issuers; banks will make private deals with alumni associations to get contact info for students, parents and even ticket buyers to university athletic events. Card companies cut deals to set up booths on campus, and Chase even inked a deal with Facebook to display ads and set up a Chase group on its Web site. The problem? Mounting credit card debt among college kids, for one. "Universities don't negotiate on behalf of students," says Manning. "They're negotiating the best deal for the university." A spokesperson for the National Association of Independent Colleges and Universities says don't blame schools — banks would market to students anyway, and universities at least try to get the best rates they can for students. 5. "In debt? The courts won't help." Since the late 1990s banks have been including mandatory arbitration agreements in their contracts for many of their products, including auto loans, checking accounts, home-equity loans and credit cards. Such agreements prohibit you from suing and instead require you to use an arbitrator — someone picked by the arbitration firm named in your credit card contract to hear the dispute and decide the outcome. While these clauses were originally designed to thwart class-action suits, the banks have also been using them for debt collection, says Paul Bland, an attorney with consumer-advocacy group Public Justice. There are even times when consumers, often victims of identity theft and unaware of the debt, aren't present when awards are handed down against them. A recent suit against an arbitration firm brought by the San Francisco city attorney noted that arbitrators ruled in favor of banks in 100 percent of the 18,045 California cases brought against consumers from January 2003 through March 2007. "From the consumer perspective, it's a nightmare," says Bland. If a bank brings arbitration against you, hire a lawyer and request a hearing — in person. 6. "We're excited about your trip to Europe too!" It's not bad enough that the dollar is hovering near historic lows against most major currencies, but when you travel overseas, every transaction comes with big fees attached. Take out cash from an ATM in London and you'll get hit with a foreign-transaction fee, plus a fee for using a competitor's ATM. All told, it can cost up to $7 just to withdraw $200. Credit card purchases aren't much better. Visa and MasterCard charge 1 percent of the purchase for converting currency. And the issuing banks may take another cut, which can bring the total to 3 percent of your purchase price, says CardRatings.com's Arnold. "If people don't travel overseas very often, they just don't think about it," he says. The best thing to do is see which of your cards charges the lowest overseas-transaction fee. If you travel a lot, Arnold recommends a Capital One credit card, which charges no overseas-transaction fees (even refusing to pass on Visa and MasterCard's 1 percent fee to customers). Also, ask your bank about partnerships with foreign banks. Bank of America, for example, partners with Barclays Bank, saving its customers $5 per withdrawal from the latter's ATMs in the U.K. 7. "For all the fine print, we don't disclose very much." Bank documents come loaded with small type, detailing terms and conditions. But good luck finding out exactly what you're signing up for when you open an account. Last year the Government Accountability Office sent investigators to see how well banks explained their fees and other conditions to potential customers. Though banks are required by law to make this information available, the GAO found that one-third of the branches it surveyed didn't provide the required information. Worse, more than half didn't have any fee info on their Web sites. Nessa Feddis, senior counsel at the American Bankers Association, questions the report's methodology — banks failed the test if investigators waited more than 10 minutes for the information — and defends the lack of data online.

Banks are afraid of leaving old, inaccurate info on their site if terms change, she says. But without details on fees, consumers can't make informed choices. "Banks are not complying with the law," says Ed Mierzwinski, consumer program director with the U.S. Public Interest Research Group. "People need more information so they can shop around for the best deal." 8. "Your money might be better off elsewhere." Banks offer lots of ways to earn interest on your money — among them, simple savings, CDs, money-market accounts and IRAs. But they don't always yield the best return. The average savings account, for example, pays about 0.5 percent interest. But even in this low-interest-rate climate, you can do better — 3 percent or more — if you shop around. "It pays to be a free agent," says Bankrate .com's McBride. "There is tremendous disparity in the returns available." Banks have been expanding into other financial services for a decade or more, including comprehensive wealth management and financial planning, brokerage services, even insurance. The well-off customers who use these are a bank's most profitable; they keep the highest balances and are less sensitive to fees, says Maryann Johnson, senior vice president of wealth market management at the ABA. That's something to remember when you talk to a bank's investment advisers: Many are paid a commission on investment products, says Certified Financial Planner Craig DuVarney, meaning they often go for the easy sale. "They don't have the harder discussion about estate planning, tax bracket and liquidity," says DuVarney. Johnson sees it differently; she says banks take a more holistic approach and that their wealth managers serve much the same purpose as financial advisers, with bonuses for not only sales but also dollars invested, new clients, and even customer retention. 9. "When it comes to banks, smaller is sometimes better." Banks have been consolidating like crazy over the past decade. In 1990 the top 10 banks controlled 25 percent of the market; now they have half. This gives customers of large banks vast networks of free ATMs and branches across the country. But it hasn't been entirely good for consumers, says Arthur E. Wilmarth Jr., a professor at George Washington University Law School. Though big banks offer many conveniences, they can come at a price: high fees. In 2006 the 10 largest banks generated 54 percent of revenue from fees and service charges; by contrast the 10 smallest banks generated just 28 percent from those sources. Not only do big banks bring in more fee income, but they also pay outless interest. According to FDIC data, smaller banks generally pay higher interest on savings accounts and other products. For example, in 2006 the 10 largest banks paid an average 1.87 percent in interest for savings accounts, while the smallest banks paid 4.37 percent. "The largest banks are no longer worried about being undercut on price," Wilmarth says. 10. "Your online account info isn't necessarily accurate." Online banking has changed the way people handle their

finances. They can pay bills online, transfer funds, track payments and get a more detailed view of their bank account than ever before. Unfortunately, it may not always show the proper balance. With electronic transactions, ATMs, check cards and direct deposits, banking has gotten more complicated. ATMs and online bank statements will show deposits available before the money is actually in your account. Using your debit card at a gas station or to reserve a hotel room, for example, can put a hold on funds. Some merchants may be slow to send in charges. And banks can sit on deposits — an out-of-state check may take up to five days to clear. Add to that the constant reordering of debits and your account balance can quickly become a moving target — hard to track accurately day to day.
"Banks use different algorithms to process payments than what you see online," says Harvard's McGovern. "It gives you a false sense of security."