

Government Accountability Office Report Says Credit Card Late and Over-Limit Fees are Increasing, Calls For Better Disclosure of Credit Card Policies

The Government Accountability Office report, "*Credit Cards: Increased Complexity in Rates and Fees Heightens Need for More Effective Disclosures to Consumers*," points out that credit card companies are raising their late and over-limit fees while failing to clearly explain their policies and penalties to consumers.

Critics of the payday lending industry hype the high APR of payday loans as a reason to limit or prohibit payday loans, but the GAO report underscores what the payday lending industry has always said, customers recognize payday advances can sometimes be their best option-- given the alternatives of credit card interest and over-limit or late fees, NSF/bounced-check fees, "courtesy" overdraft protection or small loans that put personal collateral at risk.

In fact - a payday loan compares favorably to the realistic alternatives available to consumers. When expressed as annual percentage rates (APR) for two-week terms: \$100 payday advance with \$15 fee = \$391% APR.; \$100 late credit card payment with \$39 fee = 1014% APR. Unlike cumbersome credit card disclosures, the terms of a payday loan are straightforward and understood by consumers. Additionally, payday loans do not accrue interest and will not negatively impact your credit rating.

The full report is available at <http://www.gao.gov/new.items/d06929.pdf>

Noted in the report:

► **In 2005, 35% of active U.S. credit card accounts were assessed late fees and 13% were assessed over-limit fees**

► **Credit card late and over-limit fees have increased exponentially**

"Credit cards now feature a variety of interest rates and other fees, including penalties for making late payments that have increased to as high as \$39 per occurrence and interest rates of over 30 percent for cardholders who pay late or exceed a credit limit."

"The average late fee increased from \$34 in 2003 to \$37 in 2005, with 18 of the cards assessing the highest fee of \$39 in 2005."

"Among cards that assessed over-limit fees in 2005, most charged an amount between \$35 and \$39."

► **Credit card late and over-limit fees are not clearly explained to consumers**

"Disclosures by the largest issuers have various weaknesses that reduced consumers' ability to use and understand them."

"Contrary to usability and readability best practices, the disclosures buried important information in text, failed to group and label related material, and used small typefaces."

"As a result, cardholders that the expert tested often had difficulty using the disclosures to find and understand key rates or terms applicable to the cards...Interviews with 112 cardholders indicated that many failed to understand key aspects of their cards, including when they would be charged for late payments or what actions could cause issuers to raise rates."

► **Credit card companies are seeing higher profits due to penalty payments**

"GAO analysis indicates that while the majority of issuer revenues came from interest charges, the portion attributable to penalty rates has grown."