

Pew Charitable Trusts conducted a study of the 12 largest credit card issuers, which account for more than 88 percent of outstanding credit card debt in the United States. The study involved reviewing 400 credit cards, discussions with over 20 issuers and consumer groups and economic analyses of issuer practices and revenues. [Pew released the study findings](#) along with policy recommendations for protecting cardholders and promoting a functional marketplace.

Unfair Practices

All of the credit cards studied include one or more practices that would violate the recently issued Federal Reserve Rule, which goes into effect July 2010.

- 100 percent of cards allowed the issuer to apply payments to low-rate balances before paying down balances with high rates. This maximizes interest charges to the cardholder.
- 93 percent of cards allowed the issuer to raise any interest rate at any time by changing the account agreement.
- 87 percent of cards allowed the issuer to impose penalty interest rate increases even for the most minor infraction. The median allowable penalty interest rate was 27.99 percent per year. 92 percent are issuers impose penalty rates indefinitely.
- 72 percent of cards included offers of low promotional rates which issuers could revoke after a single late payment.
- 92 percent of cards include a fee for exceeding the credit limit. The fee is \$39 on most cards.
- 84 percent of cards include binding arbitration agreements which limit cardholder's legal rights.

Conclusions

- Current credit card practices place cardholders at risk of sudden, potentially drastic price increases which can seriously impair a household's stability and spending power.
- Credit card issuers' can sustain profits by adopting transparent and predictable pricing practices such as adjusting up-front interest rates by less than one percentage point or applying annual fees in the range of \$15 per year.
- Strong, universally applicable laws provide the surest means of protecting cardholders and eliminating pressures for issuers to compete through unfair and deceptive practices.

Safe Credit Card Standards

A safe credit card will meet or exceed the following standards:

1. Cardholders will be charged only the interest rates they agreed to pay.
2. Fees will be imposed responsibly and will be transparent to the cardholder.
3. Cardholders will have sufficient time to review and pay their bills.
4. Payments will be applied first to balances carrying the highest interest rate.
5. "Double cycle" billing methods will not be used.
6. Cardholders will receive adequate time to evaluate proposed changes to the account agreement.
7. Account contracts will not limit a cardholder's legal rights to settle disputes in court. Pre-dispute binding arbitration agreements will not be used.
8. All key information about the account will be provided in short, plain language statements highlighting important information and possible actions to be taken.