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MAXED OUT

What Every Consumer Should Know About Credit Cards

A STAFF REPORT TO

THE COUNCIL OF THE CITY OF NEW YORK

Hon. Gifford Miller
Speaker

THE COMMITTEE ON OVERSIGHT AND INVESTIGATIONS

Hon. Eric Gioia
Chair

THE COUNCIL OF
THE CITY OF NEW YORK

HON. GIFFORD MILLER
SPEAKER

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Marcel Van Ooyen
Deputy Chief of Staff

COUNCIL INVESTIGATION DIVISION

Triada Stampas
Director

PREPARED BY:

H. Torrence Allen, *Legislative Investigator*
Boyoon Choi, *Legislative Investigator*
Dan Fingerman, *Legislative Investigator*

COVER DESIGN BY:

Galina Rybatsky
Member Services Division

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EXECUTIVE SUMMARY

During the 2004 holiday season, consumers will have spent, on average, between $730 and $1,285 on gifts, a significant portion of which will be financed on credit cards.[i] Holiday shopping can make up as much as 31% of a household's credit card debt. A New York City Council investigation of 433 credit cards offered to New Yorkers reveals that not all cards are created equal. In fact, consumers who shop around can save thousands of dollars over the course of repaying their holiday credit card debt.

- Over the past 25 years, credit card debt has exploded in America, increasing over 1,000% just between 1980 and 1998.[ii]
- The average household credit card debt is $4,126.[iii]
- Increases in credit card balances have disproportionately struck low-income households, senior citizens and young adults.[iv]
- Choosing the right card can save consumers significant sums of money. The table on the next page shows how paying off a $1,000 balance by making only minimum payments (typically, 2%) using cards with the lowest Annual Percentage Rates (APRs) available can save consumers nearly $4,000—and almost 25 years in payments—compared to the cards with the highest APRs.

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[i] Carroll, Joseph et al., "Christmas Spending Intentions Similar to Last Year," The Gallup Organization, http://www.gallup.com/poll/content/print.aspx?ci=14101 [accessed December 22, 2004]; Cardweb.com, "Credit and Debit Cards to Capture $108 Billion in Holiday Retail Sales CardWeb.com's CardTrak Projects --- $17 Billion for Black Friday Weekend" (press release), Nov. 23, 2004, http://www.cardweb.com/2004holidaynews.amp

[ii] Murrell, Karen L., "Accessing Affordable and Appropriate Credit," Annie E. Casey Foundation, (Sept. 2003): 2. http://www.aecf.org/lists/sf/issue4/access_to_credit.pdf [accessed Dec. 10, 2004}.

[iii] Federal Reserve Board, 2001 Survey of Consumer Finances

[iv] Draut, Tamara and Javier Silva, "Borrowing to Make Ends Meet: The Growth of Credit Card Debt in the '90s," Demos (September 2003) http://www.demos-usa.org/pubs/borrowing_to_make_ends_meet.pdf. [accessed December 10, 2004].

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Table I.

Credit cards have become a crucial part of the American economy and way of life. The aggregate credit card debt in the U.S. grew from $51.1 billion to nearly $600 billion in the 18 years between 1980 and 1998, an increase of over 1,000%.[v] While household debt has been a consistent part of American consumer culture, recent data indicates an increasingly large portion of household debt is now comprised of unpaid credit card balances, and families are spending more and more of their earnings to pay off credit card debt. With this in mind, the New York City Council makes the following recommendations:

- **Require the City to post credit card information on an easy-to-use, searchable website that allows consumers to compare cards.**

- **Consumers should:**
  - **Shop around when choosing credit cards;**
  - **Periodically check their credit score; and**
  - **Always pay more than the minimum payment on their credit cards.**

[v] Murrell, Karen L. "Accessing Affordable and Appropriate Credit."

Between 1989 and 2001, the mean credit card balance carried by families rose 64%.[vi] This increase results disproportionately from credit card balance increases among three groups: very low-income households, senior citizens and young adults. Among families with incomes less than $10,000, for example, credit card balances jumped 184% between 1989 and 2001. By contrast, families with income $100,000 or greater experienced only a 28% increase in their credit card balances during the same period.[vii]

In that same time, the average credit card balance increased by 149% to $4,041 between among individuals aged 65 and over. Nearly two thirds (65%) of elderly households have an income below $20,000, and many are Medicare beneficiaries who spend a significant portion of their income on medical costs, including prescription drugs.

Young adults (ages 18 to 24) are another age group whose credit card debt has been increasing. Credit card debt in this group has surged 104% between 1992 and 2001, to an average of $2,985. Aggressive marketing tactics from credit card companies, who set up tables at college campuses and offer free merchandize for registration, have contributed to a sharp increase in debt among college students.[viii]

In order to assess the various rates, fees and restrictions associated with credit cards in New York State, New York City Council investigators studied and compared information provided by the New York State Banking Department's Credit Card Survey, an annually updated list of

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[vi] Calculation derived from numbers reported in the 2001 Survey of Consumer Finances provided by the Federal Reserve Board.
[vii] Draut and Silva, "Borrowing to Make Ends Meet."
[viii] Draut, Tamara and Javier Silva, "Generation Broke: The Growth of Debt Among Young Americans," Demos (October 2004) http://www.demos-usa.org/pubs/Generation_Broke.pdf [accessed December 10, 2004].

information regarding all the credit cards offered to New York State residents.[ix] The investigation included 433 credit cards.[x]

According to the Council investigation, the average APR of all the credit cards offered in New York State is 12.71%. The APRs range from a low variable rate of 4.50% to a high of 20.99%. The table below indicates the lowest and highest APRs available to New Yorkers.

Credit Cards Ranked by APR

#	Institution Name	Card Name	Card Class	APR (Fixed/ Variable)	Annual Fee
1.	Wachovia Bank	Visa	Classic	4.50% V	$98.00
	Wachovia Bank	Visa	Platinum	4.50% V	$98.00
	Wells Fargo Bank	Visa	Platinum	4.50% V	$79.00
4.	Pulaski Bank & Trust Co.	Master Card	Classic	5.50% F	$35.00
	Pulaski Bank & Trust Co.	Master Card	Gold	5.50% F	$50.00
	Pulaski Bank & Trust Co.	Visa	Classic	5.50% F	$35.00
388.	First Nat'l Bank of Jeffersonville*	Visa	Classic	18.00% F	$15.00
389.	TrustCo Bank*	MasterCard	Standard	18.90% V	$0.00
	Household Bank, FSB	MasterCard	Standard	18.90% V	$79.00
391.	First Premier Bank	Visa	Standard	19.90% F	$69.00
392.	Maple City Savings Bank*	Visa	Classic	20.99% V	$0.00

Table II. (*Card not available to New York City residents.)

Consumers are bombarded on an almost daily basis with unsolicited credit card offers, each touting low APRs, no annual fees or other enticements. It is important, however, to carefully consider different cards before selecting one. Better educated consumers, and better disclosure of cards' terms will help consumers find the credit cards that best suit their needs.

[ix] New York State Banking Department, "Credit Card Survey" (June 30, 2004). http://www.banking.state.ny.us/nys_rpt.pdf.
[x] Of the 484 cards listed in the Credit Card Survey, 42 business cards and five travel and entertainment (T&E) cards listed were omitted for the purposes of this study.

BACKGROUND

Credit cards have become a crucial part of the American economy and way of life. This holiday season, consumers will have spent, on average, between $730 and $1,285 each on gifts, accounting for roughly a quarter of annual retail sales in the United States.[1] A significant portion of this holiday spending will be financed through credit cards. In fact, this year alone consumers were expected to charge nearly $108 billion in retail purchases on credit and debit cards between Thanksgiving and Christmas.[2]

In 2001, 76.2% of families had some type of credit card, with the average card-carrying household having six bank credit cards.[3] The average household credit card balance in 2001 was $4,126; the aggregate credit card debt in the U.S. had grown from $51.1 billion to nearly $600 billion over the past twenty years.[4] The percentage of families with credit card debt also increased over the years, and 44% of families now carry credit card debt, as the graph on the next page shows.[5]

[1] Carroll, Joseph et al., "Christmas Spending Intentions Similar to Last Year," The Gallup Organization, http://www.gallup.com/poll/content/print.aspx?ci=14101 [accessed Dec. 22, 2004]; Cardweb.com, "Credit and Debit Cards to Capture $108 Billion in Holiday Retail Sales CardWeb.com's CardTrak Projects --- $17 Billion for Black Friday Weekend" (press release), Nov. 23, 2004, http://www.cardweb.com/2004holidaynews.amp
[2] Card Web, "29 Days," http://www.cardweb.com/cardtrak/pastissues/december2004.html [accessed Dec. 22, 2004].
[3] Aizcorbe, Ana M. *et al*., "Recent Changes in US Family Finances: Evidence from the 1998 and 2001 Survey of Consumer Finances," *Federal Reserve Bulletin* (January 2003): 24-25, http://www.federalreserve.gov/pubs/bulletin/2003/0103lead.pdf; Draut, Tamara and Javier Silva, "Borrowing to Make Ends Meet: The Growth of Credit Card Debt in the '90s," Demos (September 2003) http://www.demos-usa.org/pubs/borrowing_to_make_ends_meet.pdf.
[4] Federal Reserve Board, 2001 Survey of Consumer Finances; Murrell, Karen L. "Accessing Affordable and Appropriate Credit," Annie E. Casey Foundation, (September 2003): 2. http://www.aecf.org/lists/sf/issue4/access_to_credit.pdf.
[5] 2001 Survey of Consumer Finances.

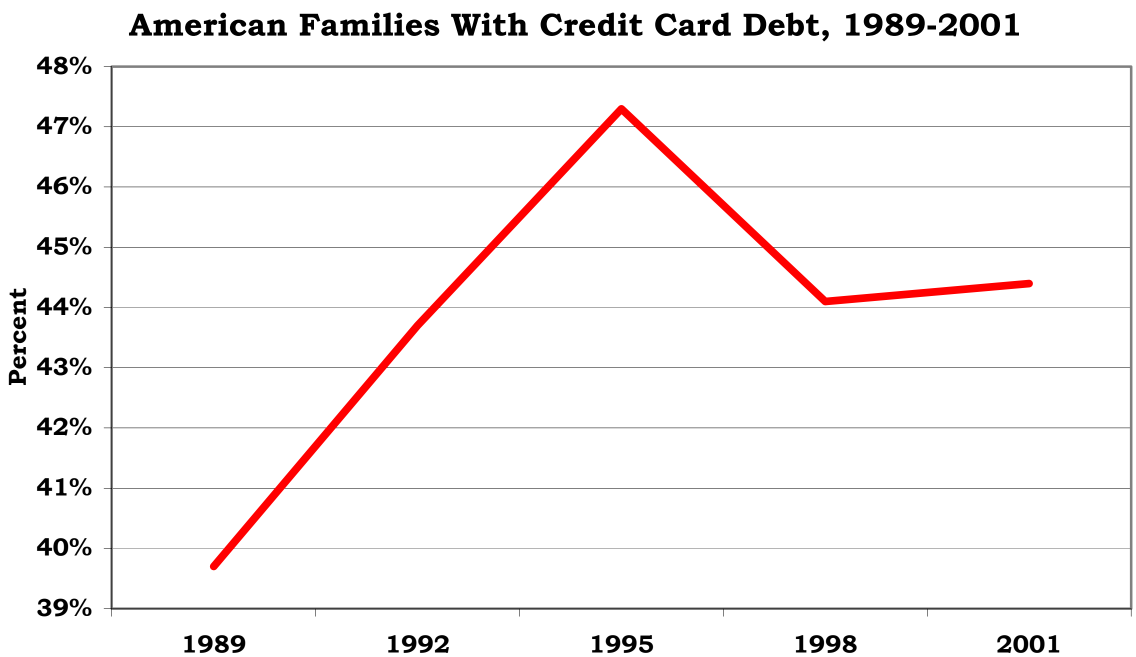

Figure 1. Source: Federal Reserve Board Survey of Consumer Finances, 1989-2001.

Households are constantly bombarded by credit card offers, with 69% of U.S. households receiving 4.8 offers per month.[6] While household debt has been a consistent part of American consumer culture, recent data indicates major changes in the patterns of household indebtedness. An increasingly large portion of total household debt is now comprised of unpaid credit card balances, and more families are devoting a larger portion of their earnings to pay off credit card debt.

Between 1989 and 2001, the share of credit card debt as part of a family's total debt increased 21.4%.[7] During the same period, the mean credit card balance families carried also rose 64%.[8] Credit card balances have increased at a much faster rate than real income among American

[6] Consumer Action, "Annual Credit Card Survey 2004," http://consumer-action.org/English/CANews/2004_May_CreditCard/ [accessed Dec. 22, 2004].
[7] Calculation derived from numbers reported in the 2001 Survey of Consumer Finances provided by the Federal Reserve Board.
[8] *Ibid.*

families. The graph below illustrates growth in the U.S. mean credit card balance and real disposable per capita income between 1989 and 2001.

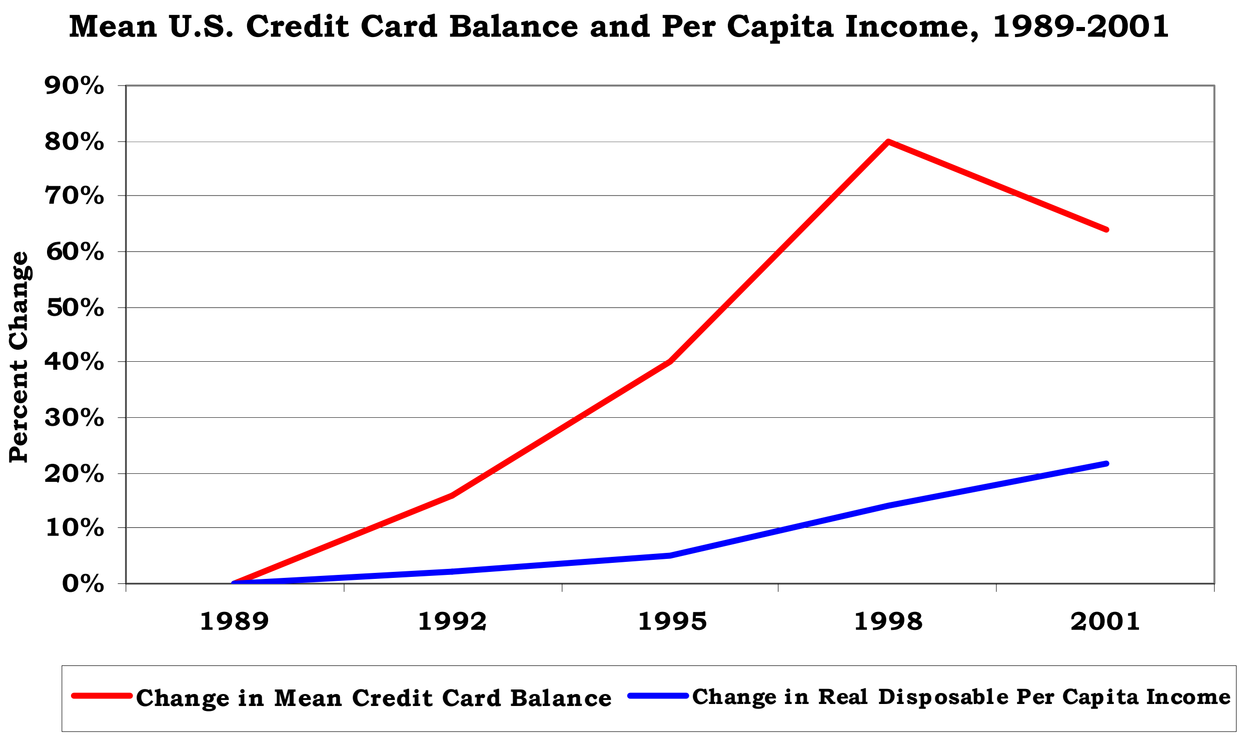

Figure 2. Source: Federal Reserve Board and U.S. Bureau of Economic Analysis.

The increase in credit card balances was disproportionately high among families with incomes less than $10,000, who saw balances soar 184% between 1989 and 2001. By contrast, credit card balances for families with incomes $100,000 or greater increased only 28% during the same period.[9]

While families with incomes in the eighth decile (80th to 89.9th percentile) had the highest mean credit card balance ($7,200), credit card debt was most prevalent among middle-income families, those in the 40th to the 59.9th percentiles of income. More than half of these families carried

[9] Draut and Silva, "Borrowing to Make Ends Meet."

revolving accounts in 2001.[10] Cardholders were most numerous among families in the 20 highest percentiles of income, but only 41.5% of these families had outstanding balances.[11]

A breakdown of the population by age groups reveals a more detailed picture. Among individuals aged 65 and over, the average credit card balance increased by 149% to $4,041, between 1989 and 2001. Furthermore, 65% of elderly households have fixed incomes below $20,000, and many are Medicare beneficiaries who spend a significant portion of their income on medical costs, including prescription drugs. Between 1993 and 2000, the amount of money spent by Medicare beneficiaries on out-of-pocket medical expenses grew by 5.4%, whereas their income grew only by 3.8%.[12]

Young adults (ages 18 to 24) have also experienced increasing credit card debt over the past decade. Credit card debt in this group has surged 104% between 1992 and 2001 to an average of $2,985. Aggressive marketing tactics from credit card companies, who set up tables at college campuses and offer free merchandise for enrollment, have contributed to a sharp increase in debt among college students.[13] According to a study by the U.S. General Accounting Office, 10 out of 12 college campuses surveyed allowed on-campus tabling or solicitation. Eight of the 12 allowed credit card applications to be inserted into college bookstore bags, while 11 of 12 alumni associations offered “affinity cards”—cards that provide rebates to the cardholder’s *alma mater* depending on card usage.[14] According to

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[10] 2001 Survey of Consumer Finances. Revolving accounts refer to accounts that carry balances from month to month without being paid off in full at the end of a billing cycle.
[11] Draut and Silva, “Borrowing to Make Ends Meet.”
[12] *Ibid.*
[13] Draut, Tamara and Javier Silva, “Generation Broke: The Growth of Debt Among Young Americans,” Demos (October 2004) http://www.demos-usa.org/pubs/Generation_Broke.pdf.
[14] United States General Accounting Office, “Consumer Finance: College Students and Credit Cards,” (June 2001): 25-26, http://www.gao.gov/new.items/d01773.pdf.

market research, 96% of college seniors have a credit card. Furthermore, graduating seniors carried an average credit card debt of $3,262 in 2001.[15]

A Background On Credit Cards

Credit cards provide consumers with a pre-approved line of credit. Accepted worldwide, most credit cards are considered unsecured, meaning that unlike traditional loans, there is no collateral attached to them. Rather, the amount of credit extended to any cardholder depends on such factors as that individual's income, credit history and credit score.[16] Secured credit cards, on the other hand, require a deposit from the cardholder. With these deposits as a form of collateral, secured credit cards serve two purposes: for banks, they can avoid losses and for customers, they can build a credit history or, for those with poor credit histories, re-establish credit.[17] These credit cards often also require an annual fee and have higher interest rates than unsecured cards.[18]

There are three types of credit cards: bank cards, store cards and travel and entertainment cards. Bank cards, the most familiar, are usually issued by banks and include cards such as Visa, MasterCard and

[15] Study conducted by marketing research firm Claritas, Inc., quoted in Draut and Silva, "Generation Broke."

[16] A credit score is a composite indicator used to assess creditworthiness. It is derived from an individual's credit reports and voluntarily provided information on identification, employment history, payment history, inquiries or requests for reports, and public information. The score ranges from 300 to 850, with higher scores indicating lower risk. According to one of the leading credit scoring firms, Fair Isaacs Corporation (FICO), the following factors can affect an individual's credit score: number and severity of late payments (35% of score); type and amount of outstanding debt (30%); length of credit history (15%); number of active accounts (10%); and mix of credit accounts, such as store or bank cards (10%). (Fair Isaac Corporation, "What's In Your Score," http://www.myfico.com/myfico/CreditCentral/ScoreConsiders.asp, accessed Dec. 22, 2004.]

[17] Schroeder, Richard, "Secured Credit Cards May be Your Key to Plastic Money," *The Buffalo News,* July 28, 1993.

[18] Lectric Law Library's Stacks, "Secured Credit Card Marketing Scams: September 1993," http://www.lectlaw.com/files/cos47.htm.

Discover. Other participating financial institutions, such as credit unions, also offer bank cards. Travel and Entertainment (T&E) cards usually have higher annual fees and lower Annual Percentage Rates (APR), and require cardholders to pay their balances in full. American Express and Diners Club are both examples of T&E cards. Last, many large retail stores issue store or house cards, which are valid only at their store locations. These cards are relatively easy to obtain and usually offer promotions and sales at the stores. Many credit card issuers offer these cards in different tiers. The higher tiers, usually denoted as Gold or Platinum, offer higher credit limits and reward usage with incentives, such as free travel insurance or other exclusive offers.[19]

Rates and fees associated with credit cards vary as well. Some have annual fees, which are flat, non-negotiable costs holders pay for the use of the card. Most cards also charge Annual Percentage Rates (APRs), the interest rates levied on amounts borrowed, including fees and costs paid to acquire loans or credit. APRs are used to calculate all or part of the finance charges imposed by card companies for borrowing a fixed monetary sum, and can be either fixed or variable. Fixed APRs are set and do not change, whereas variable APRs follow fluctuations in the Prime Rate.[20] Variable rates usually consist of the prime rate plus a premium set by the lender, which is often based factors including the cardholder's creditworthiness.[21]

[19] "Types of Credit Cards," http://www.creditcardguide.org/card-basics/credit-card-types.htm [accessed December 26, 2004].

[20] Bankrate.com, "15 Must Know Credit Card Terms," http://www.bankrate.com/ibd/news/financial-literacy2004/credit-card-terms1.asp [accessed Dec. 23, 2004]. The Prime Rate is the interest rate posted by a majority of the top 25 insured US-chartered commercial banks. The Prime Rate also varies as often as necessary, depending on the banks' assessments (Federal Reserve, "Selected Interest Rates, December 22, 2004," *Federal Reserve Statistical Release,* http://www.federalreserve.gov/releases/H15/update.)

[21] CreditTalk, "Payment Cards," http://www.credittalk.com/money101/paymentcards.html#vrates [accessed Dec. 22, 2004]

Credit cards offer consumers a grace period before interests and fees begin to accrue when cardholders can make full payments for purchases charged.[22] When consumers fail to make even a minimum payment within that grace period, they are charged a late fee. When a consumer exceeds his or her line of credit, companies typically charge over-limit fees. Many credit card companies also allow cash advances, which are subject to separate APRs and fees.

Credit cards emerged as a rapidly growing industry during the mid 20th century. The first credit card in the U.S. was the Diners Club card, issued in 1950 for use at restaurants only. Within one year, Diners Club had 20,000 members and expanded to numerous U.S. cities.[23] By 1958, Bank of America introduced the BankAmericard, the first modern credit card combining the convenience of a charge account with credit privileges. The BankAmericard was later renamed Visa, and by 2003, 29 million consumers carried Visa cards.[24]

Other major credit cards originated during this time period as well. The first American Express Card was issued in 1958 and by 2002 boasted nine million cardholders.[25] MasterCard, currently with more than 630 million cards in circulation worldwide, was first issued by a group of bankers in 1966 under the name MasterCharge.[26] Discover, another

[22] Bankrate.com, "15 Must Know Credit."
[23] Diners Club International, "Story behind the card," http://www.dinersclubnorthamerica.com/US/en/diners_club.jhtml?pageId= us_01_02_02 [accessed Dec. 13, 2004).
[24] Hoover's Company Records, "Visa International," http://www.lexis.com/research/ retrieve?_m=987c248334330c9079c349e7abffee8&docn [accessed Dec. 14, 2004].
[25] Hoover's Company Records, "American Express Company," http://www.lexis.com/ research/retrieve?_m=fbd9557c5902d343c61ed6913737a1c4&doc [accessed Dec. 14, 2004].
[26] Hoover's Company Records, "MasterCard Incorporate," http://www.lexis.com/ research/retrieve?_m=96b4606860ebc2ad9179fd1c9d5374b7&doc [accessed Dec. 14, 2004].

major credit card, was introduced in 1986 as a business segment of Morgan Stanley and is currently used by 50 million members.[27]

By 1999, ten issuers—Citibank, Bank One, MBNA, Discover, Chase Manhattan, American Express, Bank of America, Providian, Capital One and Fleet—dominated 77 percent of the credit card market. Together, the top ten account for $372 billion in card loans and 262 million accounts.[28]

The Regulatory Environment

In response to the rapidly expanding and increasingly complex credit card industry, the U.S. Congress passed the Federal Truth in Lending Act of 1968 (TILA), which was implemented in 1969by Regulation Z.[29] Prior to TILA, the lack of industry-wide standards made it extremely difficult for consumers to compare rates and terms. Currently, TILA primarily regulates the definitions and rules for calculating APRs, fees and disclosure requirements for credit cards.[30]

Under TILA, federal regulatory agencies—with the Federal Trade Commission as the overall enforcing body—make monetary and other adjustments to consumer accounts, and impose penalties on lenders when the finance charge or APR exceeds the disclosed finance charge or APR. TILA and Regulation Z, however, do not cap the interest rate a bank can charge for consumer credit transactions.[31] Instead, many states have

[27] Hoover's Company Records, "Discover Financial Services Inc.," http://www.lexis.com/research/retrieve?_m=7668404b688a236c458e1ffb57c057e&docn [accessed Dec. 14, 2004]; Hoover's Company Records, "Morgan Stanley," http://www.lexis.com/research/retrieve?_m=7668404b6886a236c458e1ffb57c057e&docn [accessed Dec. 14, 2004].
[28] Draut and Silva, "Borrowing to Make Ends Meet."
[29] 15 U.S.C. § 1601, et seq.; Comptroller of the Currency Administrator of National Banks, "Truth In Lending Act: Comptroller's Handbook," December 1996 http://www.occ.treas.gov/handbook/til.pdf#search='Truth%20in%20Lending%20Act'.
[30] *Ibid.*
[31] Comptroller of the Currency; 15 U.S.C § 1607(c).

usury laws that cap the interest rate a card company may charge. For example, any New York-based company that knowingly charges an interest rate exceeding 25% is guilty of criminal usury, a class E felony.[32]

Several landmark Supreme Court rulings changed banking regulations and have rendered the credit card business more profitable. In *Marquette National Bank of Minneapolis v. First Omaha Service Corp* (1978), the court ruled that the National Banking Act of 1864 allowed a national bank to charge its credit card customers the highest interest rate permitted in the state where the bank is incorporated.[33] This ruling created an exodus of banks from states with strict usury laws to states with lenient or no usury laws, such as South Dakota and Delaware. Many states consequently loosened their usury laws in order to retain businesses. As a result, 29 states have no limit on credit card interest rates today.[34] More recently, in *Smiley vs. Citibank* (1996), the court ruled that for the purposes of regulation, fees such as annual or late fees, are defined as "interest."[35] As a result, these fees are not subject to laws set forth by the state in which credit card users reside, but like interest rates, are subject to laws in states where the bank is incorporated.[36]

These regulatory changes had mixed results for consumers. As a result of the *Marquette* ruling, credit cards have become accessible to a larger population, especially to those with low incomes who were previously considered too great a credit risk. In fact, while only 43% of U.S. households in 1983 had a credit card, the percentage increased to 76.2% by 2001.[37] The tradeoff for low-income individuals, however, has been the

[32] N.Y. Penal Law § 190.40 (Consol. 2004).
[33] 439 U.S. 299 (1978).
[34] Draut and Silva, "Borrowing to Make Ends Meet."
[35] 517 U.S. 735 (1996).
[36] Draut and Silva, "Borrowing to Make Ends Meet."
[37] Black, Sandra E. and Donald P. Morgan, "Meet the New Borrowers," *Current Issues in Economics and Finance*, 5, no.3 (February 1999): 6. http://www.newyorkfed.org/

higher interest rates they are charged to compensate for their "risky" status. In 2000, the number of mailed credit card solicitations targeting low-income consumers—identified as having an APR higher than 19%—accounted for one fourth of all credit card solicitations that year.[38] Furthermore, while credit card ownership among families in the lowest quintile of income grew 13.9% between 1989 and 2001, their mean balance increased by 163% during the same period, as many of these families carried revolving accounts.[39]

Current Industry Practices

Current credit card industry practices, enabled by regulatory changes, have allowed card companies to derive significant profits through fees and finance charges. Revolving accounts are particularly vulnerable to these new practices. According to a recent Gallup poll, approximately 60% of consumers revolve balances. Furthermore, the poll revealed that the number of users who "always pay-off in full" has declined over the past three years, from 42% to 37%.[40]

In recent years, credit card companies have realized significant revenues through finance charges, which are partly based on the APR. In fact, between 1988 and 1994, revenue collected by credit card companies from interest grew from $34.8 billion to $58.1 billion.[41] Not only is the average rate much higher today than it was 20 years ago, but all major credit card companies now raise the interest rate after the first late payment. According to a national survey conducted by the Public Interest Research

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research/current_issues/ci5-3.pdf [accessed December 19, 2004]; Aizcorbe, "Recent Changes in US Family."
[38] Murrell, "Accessing Affordable Credit."
[39] Draut and Silva, "Borrowing to Make Ends Meet."
[40] Card Web, "Card Debt," http://www.cardweb.com/cardtrak/pastisses/april2004.html [accessed Dec. 16, 2004].
[41] Draut and Silva, "Borrowing to Make Ends Meet."

Group (PIRG), as many as 69% of credit card issuers raise a cardholder's rate after one late payment, up from 46% in 1998.[42] These penalty rates tend to be much higher than average rates, with most cards charging customers between 22% and 29% for up to a year following the first late payment.[43] Credit card companies also now raise interest rates based on payment records with other companies obtained through credit reports. In fact, an annual survey of 140 cards revealed that most companies review customer credit reports on a regular basis, and that 44% of them identify "risky" cardholders and raise interest rates, even if these consumers have never made a late payment.[44]

Furthermore, credit card companies have not lowered APRs despite continuous decreases in the prime rate. The prime rate was reduced 13 times between 2001 and 2003 and, as of the release of this report, stood at 5.25%.[45] However, as a result of pre-set interest rate floors and interest rate adjustments based on credit scores, New York City residents pay for an average variable APR of 15.05% on their purchases. This rate is higher than in most other major metropolitan areas including Los Angeles and Chicago.[46]

Credit card companies have also steeply increased their penalty fees—including late fees, over-limit fees, balance transfer fees, cash advance fees, foreign exchange fees and annual fees. Between 1994 and 1998, total consumer penalty fees jumped nearly 250% from $7.3 billion to $18.9 billion. Late fees have been the fastest growing sources of revenue

[42] Public Interest Research Group, "The Credit Card Trap: How to Spot It How to Avoid It," http://www.truthaboutcredit.com/credittrap.pdf [accessed Dec. 20, 2004].
[43] Draut and Silva, "Borrowing to Make Ends Meet."
[44] Consumer Action, "Annual Survey."
[45] Federal Reserve, "Selected Interest Rates, December 22, 2004."
[46] Senator Charles Schumer, "Schumer: While Interest Rates Go Down, Credit Card Rates Stay Stubbornly High-Banks Even Raise Card Rates When Prime Rate Goes Down" (press release), July 23, 2003.

and currently average $29. In addition, most major issuers have eliminated the late payment grace period, charging late fees on payments that arrive any time after a specific due date cut-off time.[47]

Another revenue-raising method used by credit card companies has been reducing minimum payments while continually extending consumers' credit lines. In the past decade, companies have lowered their minimum payment requirements from an average of five percent to two or three percent of the outstanding balance. As a result, families only making minimum payments have seen their debt increase as they spend a higher proportion of their earnings to pay off credit card interest.[48] For example, the average family credit card balance of $4,126 with an annual interest rate of 15% and a minimum payment requirement of 2% would take 30 years to pay off and would cost $6,333 in interest alone.[49] Furthermore, credit card issuers have encouraged customers to spend more by continuously extending consumer credit lines. Between 1993 and 2000, the amount of credit extended to consumers grew from $777 billion to almost $3 trillion.[50]

Finally, card companies have started to shorten grace periods, making it easier for customers to miss payments. In 2002, two major credit card companies, Bank One and Citibank, shortened their grace periods on most of their accounts from roughly 25 days to 20 days.[51] Shortened grace periods not only require more frequent payments, but also allow

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[47]Card Web, "Late Fee Bug," http://www.cardweb.com/cardtrak/news/2002/may/17a.html [accessed Dec. 22, 2004]; Card Web, "Fee Revenues," http://www.cardweb.com/cardtrak/news/1999/july/8a.html [accessed Dec. 22, 2004].
[48]Draut and Silva, "Borrowing to Make Ends Meet."
[49] Based on calculations performed by the Card Calculator available at htttp://www.cardweb.com
[50] Draut and Silva, "Borrowing to Make Ends Meet."
[51] Bayot, Jennifer, "With Interest Rates Stable, Credit Card Fees Rise," *New York Times*, April 20, 2003.

interest to be accrued on new purchases much faster. A new purchase will not accrue any interest if paid in full by the end of the grace period.

Raising Awareness

Several legislators have pushed for measures to require credit card companies to better disclose their interest rates and fees to consumers. In December 2003, the federal government enacted the Fair and Accurate Credit Transactions Act. Among other things, this law requires that credit-reporting agencies provide consumers with a free credit report during any 12-month period upon request. This provision of the law goes into effect on different dates in different regions; in New York, it takes effect on September 1, 2005. Other notable provisions include a requirement that consumer-reporting agencies block the reporting of information believed to be a result of identity theft, and the establishment of guidelines for card companies to notify consumers should the credit terms they offer be significantly less favorable than terms available to a substantial number of cardholders.[52]

Card companies are already required by the Fair Credit and Charge Card Disclosure Act of 1988 to display the term of credit cards, including annual percentage rates, fees, grace periods and balance calculation methods, in a tabular format on card solicitations.[53] Furthermore, Senator Christopher Dodd of Connecticut introduced the Credit Card Accountability Responsibility and Disclosure Act of 2004, which would amend TILA to require advance notice of any increase in interest rates and to allow the cardholder to cancel the account before the effective date. This pending legislation also seeks to prohibit fees and charges on on-time

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[52] U.S. Congress. House. Fair Credit and Transactions Act of 2003, Public Law 108-159, 108th Cong. 2nd sess. (Dec. 4, 2003).
[53] Schwarzkopf, Cara, "Credit-Ability," *Newsday*. March 23, 2001.

payments, payments in full and over-limit fees on creditor-approved transactions. In addition, it would require more specific disclosures on temporary and/or introductory APRs and disclosure of pay-off timing of outstanding balances and payment deadlines.[54]

Similarly, the New York State legislature has proposed measures that call for better disclosure of credit card terms and limit finance charges and fees. In 2003, Assemblyman Ivan Lafayette of Queens introduced legislation that would require card companies to notify cardholders of changes in their contractual terms 60 days prior to the effective date. Such notification would include all information that card issuers are already required to disclose on card solicitations by federal law.[55] Another bill, introduced by Assemblyman Brian Higgins of Erie County, calls for the creation of a website maintained by the banking board that would provide cardholders access to bank and credit card account information currently available through toll-free numbers.[56] Other New York State legislative proposals would limit late fees or charges to $20 or 5% of the unpaid balance, prohibit fees on accounts that are paid in full within a billing cycle or grace period, and provide a 10-day late payment grace period.[57]

This investigation compares and evaluates the various credit cards available to New York City residents.

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[54] U.S. Congress. Senate. *Credit Card Accountability Responsibility and Disclosure Act of 2004.* S. 2755. 108th Cong., 2nd sess. (2004).
[55] A.63, 2003 Assem., (N.Y. 2003).
[56] A.2784, 2003 Assem. (N.Y. 2003).
[57] A. 205, 2003 Assem. (N.Y. 2003); A.245A, 2003 Assem., (N.Y. 2003); A.6919, 2003 Assem., (N.Y. 2003).

METHODOLOGY

In order to assess the various rates, fees and restrictions associated with credit cards in New York State, New York City Council investigators studied and compared information provided by the New York State Banking Department's Credit Card Survey, an annually updated list of information regarding all the credit cards offered to New York State residents.[58]

The New York State Banking Department's Credit Card Survey lists 484 credit cards offered to New York State residents. These include business cards, credit union cards, personal cards, rebate cards, secured cards, T&E cards and student cards. While not all of the banks are chartered or based in New York State, they are the institutions that offer credit cards to New York State residents. Forty-two business cards and five T&E cards listed were omitted from the study. Of the remaining 433 cards, 17 (4%) were credit union credit cards, 198 (46%) were personal credit cards, 176 (41%) were rebate cards; 16 (4%) were secured cards; and 26 (6%) were student cards.

[58] New York State Banking Department, "Credit Card Survey" (June 30, 2004). http://www.banking.state.ny.us/nys_rpt.pdf.

FINDINGS

The average APR of the credit cards offered in New York State is 12.71%. While secured credit cards have higher APRs, the highest APR of non-secured credit cards is Maple City Savings Bank (20.99%) and First Premier Bank (19.90%). The chart below displays the distribution of APRs for all New York State offered credit cards.

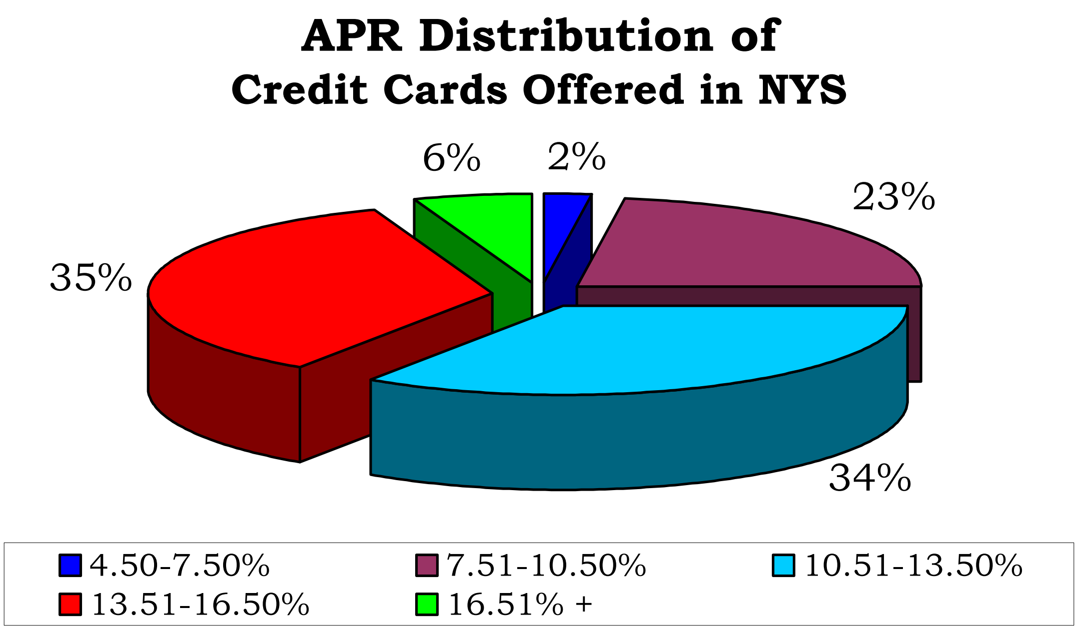

Figure 3.

Credit cards more commonly have variable APRs than fixed APRs. Of the 433 offered in New York State, 160 (37%) have fixed APRs while 273 (63%) have variable APRs.

Grace periods can also vary greatly. Of the credit cards surveyed, 278 (64.2%) have a grace period of 25 days from billing, 142 (32%) have a grace period that is 20 days from billing. Another five credit cards' (1.2%) grace periods' are 20 days from transaction, three (0.7%) are 25 days from transaction, three (0.7%) are 26 days from transaction and two (0.5%) are zero days from billing.

Most credit cards offered in New York State do not charge an annual fee. Of the 433 cards surveyed, 153 credit cards (35%) assess an annual fee. The average annual fee among those cards is $40.61.

For consumers with revolving debt, the factor that can play the biggest role in determining how much time and money it takes to pay off a credit card balance is the APR. The following table shows, in ascending order, the lowest APRs among credit cards offered in New York State.

Lowest Purchase APR Credit Cards

#	Institution Name	Card Name	Card Class	APR (Fixed/ Variable)	Annual Fee
1.	Wachovia Bank	Visa	Classic	4.50% V	$98.00
	Wachovia Bank	Visa	Platinum	4.50% V	$98.00
	Wells Fargo Bank	Visa	Platinum	4.50% V	$79.00
4.	Pulaski Bank & Trust Co.	Master Card	Classic	5.50% F	$35.00
	Pulaski Bank & Trust Co.	Master Card	Gold	5.50% F	$50.00
	Pulaski Bank & Trust Co.	Visa	Classic	5.50% F	$35.00
7.	Chase Manhattan Bank	Master Card	Gold	6.15% V	$35.00
	Chase Manhattan Bank	Master Card	Platinum	6.15% V	$35.00
9.	Amalgamated Bank of Chicago	Master Card	Gold	7.25% V	$25.00
	Amalgamated Bank of Chicago	Master Card	Standard	7.25% V	$25.00

Table 1.

The table on the next page shows the credit cards with the five highest APRs.

Highest Purchase APR Credit Cards

#	Institution Name	Card Name	Card Class	APR (Fixed/ Variable)	Annual Fee
1.	Maple City Savings Bank*	Visa	Classic	20.99% V	$0.00
2.	First Premier Bank	Visa	Standard	19.90% F	$69.00
3.	TrustCo Bank*	MasterCard	Standard	18.90% V	$0.00
	Household Bank, FSB	MasterCard	Standard	18.90% V	$79.00
5.	First Nat'l Bank of Jeffersonville*	Visa	Classic	18.00% F	$15.00
	Chinese American Bank	MasterCard	Standard	18.00% F	$20.00

Table 2. (*Not available to New York City residents.)

Cardweb.com, an online source of credit card information, ranks the top 10 U.S. bank credit card issuers by market share. Since each of the top 10 issues multiple cards, the table below lists the top ten lowest APR cards offered by these ten card issuers.

Lowest Purchase APRs, Top 10 Issuers

#	Institution Name	Card Name	Card	APR	Annual
1.	Wells Fargo Bank	Visa	Platinum	4.50% V	$79.00
2.	Chase Manhattan Bank	MasterCard	Gold	6.15% V	$0.00
	Chase Manhattan Bank	MasterCard	Platinum	6.15% V	$0.00
4.	Citibank[59]	MasterCard	Platinum	8.49% V	$0.00
5.	Capital One Bank	Visa	Platinum	8.90% F	$0.00
6.	Chase Manhattan Bank	MasterCard	Platinum	9.49% V	$0.00
	Chase Manhattan Bank	Visa	Platinum	9.49% V	$0.00
	Citibank[60]	MasterCard	Platinum	9.49% V	$0.00
9.	Capital One Bank	MasterCard	Platinum	9.90% F	$19.00
	MBNA[61]	Visa	Platinum	9.90% F	$0.00
	MBNA[62]	MasterCard	Platinum	9.90% F	$0.00

Table 3.

[59] Citibank offers four different Platinum MasterCards at this APR, with identical grace periods and penalty fees.
[60] Citibank offers four different Platinum MasterCards at this APR, with identical grace periods and penalty fees.
[61] MBNA offers five different Platinum Visas at this APR, with identical grace periods and penalty fees.
[62] MBNA offers four different Platinum MasterCards at this APR, with identical grace periods and penalty fees.

Highest Purchase APRs, Top 10 Issuers

#	Institution Name	Card Name	Card Class	APR (Fixed/ Variable)	Annual Fee
1.	HSBC Bank	MasterCard	Standard	19.80% F	$35.00
2.	Discover	Discover	Classic	17.99% V	$0.00
3.	HSBC Bank	MasterCard	Standard	16.65% V	$0.00
4.	Citibank	MasterCard	Platinum	16.49% V	$50.00
5.	Discover	Discover	Classic	15.99% V	$0.00

Table 4.

Almost 40% of the credit cards offered to residents of New York (172) are from institutions based within the State.[63] Approximately 33% of all the New York-based credit card institutions are based out of New York City. The average APR for a card issued by a New York State lender is 13.45%.

In an effort to establish (or re-establish) a good credit history, many consumers apply for secured credit cards. Only 4% of the credit cards available to New Yorkers are secured.[64] The average APR of the secured cards is 17.64%, almost 5% higher than the overall state average. The average annual fee for the secured cards is $42.31; while for unsecured cards the average annual fee is $14.13. The difference in average late fees between secured and unsecured cards is relatively small. For an unsecured card it is $31.54, while for a secured card it is $29.63.

Credit card companies often cater to college students with special credit cards. There are 26 student credit cards offered in New York State.[65] The average APR for these cards is 14.56%, and only one has an annual fee.

[63] For details and rankings for these cards, see Appendix A, p. A2.
[64] For details and rankings for these cards, see Appendix A, p. A3.
[65] For details and rankings for these cards, see Appendix A, p. A4.

The average late fee is $34.00 and the average fee for exceeding one's limit is $32.48.

CONCLUSION

Consumers are finding themselves increasingly in debt, with more and more of their earnings going towards paying outstanding credit card balances and fees. Families are bombarded on an almost daily basis by unsolicited credit card offers that may or may not be the best choice for them. While this increase in consumer debt may stem from several factors, it is undeniable that credit card companies have made sizeable profits by raising annual percentage rates, inflating fees, lowering minimum payments, increasing credit lines and reducing grace periods. As a result of these practices, families with revolving accounts find themselves with less cash while they send a steady stream of revenue to card companies.

An examination of credit card fees and rates show that consumers can save money by choosing the correct credit card. The following table shows the amount of interest and yearly fees for four cards, assuming that a consumer charges $1,000 and pays the typical minimum 2%.

Credit Card	APR / Annual Fee	Time To Pay Off $1000 Balance	Total Paid	Total Extra Money Paid
Wachovia Bank Visa	4.50% V $79.00	8 yrs, 2 mos	$1,802	$802
Wells Fargo Bank Visa	4.50% V $98.00	8 yrs, 2 mos	$1,954	$954
First Premier Bank Visa	19.90% F $69.00	25 yrs, 10 mos	$5,795	$4,795
Maple City Savings Bank Visa	20.99% V $0.00	33 yrs	$5,184	$4,184

Table 5.

The differences between the cards with the two lowest and the two highest APRs are staggering, and show how choosing the correct card can save consumers money over time. In the last two cases the extra money spent is more than four times the original $1,000 charge, and approximately five times more than the first two credit cards would charge.[66]

Initiatives have been taken to promote better disclosure of card terms to consumers, and they provide an opportunity for consumers to study industry practices and choose credit cards that will get them the best value for their usage. Credit card institutions may advertise low APRs, high credit limits, no annual fee, or some type of incentive program. While these offers may sound enticing, consumers must examine the long-term fees; the cards that boast some of the lowest APRs, for example, come with very high annual fees. It is imperative, therefore, that consumers carefully consider their spending patterns and their ability to pay before choosing credit card.

[66] Based on calculations performed by the Card Calculator available at htttp://www.cardweb.com.

RECOMMENDATIONS

- **Require the City to post credit card information on an easy-to-use, searchable website that allows consumers to compare cards.**
  While it is available online, the Credit Card Survey produced by the New York State Banking Department is an unwieldy document; it is not indexed, nor does it provide any other guidance for sorting through the information it contains. If consumers are interested in researching and carefully selecting a credit card, as they should, an Internet database could easily and inexpensively provide them with the means to compare and contrast the 484 credit cards offered in this state and select the one that best suits their purposes.

- **Consumers should shop around when choosing credit cards.**
  Prior to selecting a credit card, consumers should familiarize themselves with the features of different cards, and select for those features that meet their needs—whether that means a low APR, longer grace period, smaller penalty fees, etc.

- **Periodically check your credit score.**
  Credit scores are available from the three major credit-reporting agencies, Experian, Equifax and Transunion. For the present, New Yorkers must pay to view their credit reports, but beginning September 1, 2005, New Yorkers will be entitled to a free credit report annually from each of the three major credit-reporting agencies. By periodically checking one's credit score, a consumer can protect his or her good credit.

- **Always pay more than the minimum payment on your credit cards.** By paying more then the minimum payment consumers can pay down their debt faster and pay less interest on their debt.

APPENDIX A:

Additional Findings

Credit Cards Ranked by APR— New York Based Institutions

#	Institution Name	Card Name	Card Type	Card Class	APR (Fixed/ Variable)	Annual Fee
1.	Bethpage Federal Credit Union	Visa	Credit Union	Platinum	7.70% V	$0.00
2.	Bethpage Federal Credit Union	Visa	Credit Union	Classic	8.70% V	$0.00
3.	Cornell Finger Lakes Credit Union	Visa	Credit Union	Platinum	8.90% V	$15.00
4.	State Employees Fed. Credit Union	Visa	Credit Union	Gold	9.00% V	$0.00
5.	ESL FCU	Visa	Credit Union	Gold	9.15% V	$0.00
6.	Tompkins Trust Company	Visa	Personal	Gold	9.25% V	$40.00
7.	Chase Manhattan Bank	Master Card	Rebate	Platinum	9.49% V	$0.00
	Chase Manhattan Bank	Visa	Rebate	Platinum	9.49% V	$0.00
9.	Chemung Canal Trust Co	Master Card	Personal	Standard	9.90% V	$0.00
	Chemung Canal Trust Co.	Visa	Personal	Gold	9.90% V	$0.00
	Everbank	Visa	Personal	Platinum	9.90% V	$0.00
	Apple Bank for Savings	Visa	Rebate	Platinum	9.90% F	$0.00
	Saratoga's Community FCU	Visa	Credit Union	Gold	9.90% F	$0.00
155.	Bath National Bank	Visa	Personal	Classic	17.88% F	$0.00
156.	First Nat'l Bank of Jeffersonville	Visa	Personal	Classic	18.00% F	$15.00
	Chinese American Bank	Master Card	Personal	Standard	18.00% F	$20.00
158.	Trust Co. Bank	Master Card	Personal	Standard	19.90% F	$69.00
159.	Maple City Savings Bank	Visa	Personal	Classic	20.99% V	$0.00

Credit Cards Ranked by APR— Secured Cards

#	Institution Name	Card Name	Card Class	APR (Fixed/ Variable)	Annual Fee
1.	Amalgamated Bank of Chicago	MasterCard	Gold	9.25% V	$50.00
2.	Amalgamated Bank of Chicago	MasterCard	Standard	12.75% V	$50.00
3.	U.S. Bank/ Korean Air SKYPASS	Visa	Classic	14.49% V	$55.00
4.	Merrick Bank	Visa	Classic	14.70% V	$36.00
5.	Bank of America	Visa	Gold	14.99% V	$29.00
6.	Evans National Bank	Visa	Classic	15.60% F	$20.00
7.	Washington Mutual Bank	Visa	Classic	15.80% V	$35.00
8	American Pacific Bank	Visa	Classic	17.40% F	$35.00
9.	HSBC Bank USA	MasterCard	Standard	19.80% F	$35.00
	Plains Commerce Bank	MasterCard	Standard	19.80% F	$39.00
12.	First Premier Bank	MasterCard	Standard	19.90% F	$69.00
13.	Bank of Smithtown	Visa	Classic	20.99% V	$20.00
14.	Emigrant Savings Bank	Visa	Classic	21.10% V	$20.00
15.	TrustCo Bank	MasterCard	Standard	21.90% F	$25.00
16.	Cross Country Bank	Visa	Gold	23.99% V	$120.00

Credit Cards Ranked by APR— Student Credit Cards

#	Institution Name	Card Name	Card Class	APR (Fixed/ Variable)	Annual Fee
1.	USAA Savings Bank	Visa	Classic	10.00% V	$0.00
2.	BB & T	Visa	Standard	10.65% V	$12.00
3.	Blue for Students	Amex	Standard	12.49% V	$0.00
4.	Sovereign Bank	Visa	Classic	12.99% F	$0.00
5.	First National Bank of Omaha	Visa	Classic	13.99% V	$0.00
	State Farm Bank, FSB	Visa	Classic	13.99% V	$0.00
	Washington Mutual Bank	Visa	Classic	13.99% V	$0.00
8.	AT&T Universal	MasterCard	Standard	14.49% V	$0.00
	Bank One	Visa	Platinum	14.49% V	$0.00
	Chase Manhattan Bank[1]	MasterCard	Platinum	14.49% V	$0.00
	Citibank[2]	MasterCard	Platinum	14.49% V	$0.00
	Citibank3	Visa	Platinum	14.49% V	$0.00
18.	Hudson River Bank & Trust Company	Visa	Classic	15.99% V	$0.00
19.	Emigrant Savings Bank	Visa	Classic	16.15% V	$0.00
20.	HSBC Bank	MasterCard	Standard	16.65% V	$0.00
21.	Verizon / Citibank	Visa	Classic	16.75% V	$0.00
22.	Discover	Discover	Classic	17.99% V	$0.00

[1] Chase Manhattan Bank offers two different Platinum MasterCards for students. The first offers points for purchases, while the second offers double points on Universal Entertainment purchases. For the purposes of this report, they are listed as the same.
[2] Citibank offers three different Platinum MasterCards for students. The Driver's Edge Card offers incentives for students preparing to purchase a car, another offers more basic rewards and a third offers no rewards. For the purposes of this report, they are listed as the same.
3 The same three options for Citibank's Platinum Student MasterCard are offered as a Visa card.