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Credit Card Sharks

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By Jim Sollisch

Sunday, February 5, 2006; Page B07

There's a new law that forces credit card issuers to increase the minimum monthly payments borrowers must make. The good news is that borrowers will pay much less in interest over time. Nevertheless, many consumers might still be better off owing a loan shark money than a credit card company. Here are seven ruthless practices that credit card issuers engage in and loan sharks don't:

1. Loan sharks don't raise your interest rate if you're late paying a bill to another creditor. According to an ABC News report, 44 percent of credit card agreements contain a universal default penalty, which allows the issuer to increase the borrower's rate if a payment to another creditor is missed or late. Here's an example from Chase Manhattan Bank's cardholder agreement as reported in the 2004 New York Times series on credit cards: "The highest rate (28.49 percent) may be charged if the cardholder is late making a payment to any creditor; this can include phone and utility bills, car payments and the like -- even if credit card payments are made on time." So if you agree to accept a credit card with an 8 percent interest rate, and you make your payments on time for several years, your rate can suddenly jump to 28.49 percent. All you have to do is misplace your gas bill for a couple of days and be late on your payment.

2. Loan sharks don't solicit. The credit card industry sends out 5 billion solicitations a year in the United States alone, according to cardweb.com. Many of these solicitations go to people who don't even have jobs, such as my 20-year-old son, Zack, a college student. He gets at least one credit card offer a day. As

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far as I know, he's never been approached by a loan shark.



3. Loan sharks don't change the terms whenever they want. And if they do, they aren't bold enough to put it into print, as Bank One does on its Visa Card term sheet. Of course the print is quite fine. It reads: "We reserve the right to change the terms at any time for any reason." I assume "any reason" includes, "We'd just like to increase our profits." Or "We don't like your last name." Or "Let's raise the rates of everyone who has an odd-numbered address."

4. Loan sharks don't penalize you for paying off your debt. According to ABC News, some credit card agreements contain a no-balance fee: You can be charged a fee when your balance reaches zero.

5. Loan sharks don't charge you for not borrowing more money. Some credit card issuers actually charge a \$15 monthly fee if your card remains inactive for more than six months.

6. Loan sharks don't make you sign a document that says that you can't sue them. Granted, they have their ways to encourage you to avoid this step. But Chase Manhattan Bank's cardholder agreement plainly and clearly makes you agree to give up your constitutional right to sue: "The cardholder cannot take the issuer to court or be included in a class-action suit against the company."

7. Loan sharks don't lobby the government to make it harder for you to go bankrupt. Banks and credit card issuers spent millions of dollars lobbying Congress in favor of the 2005 bankruptcy bill.

Last time I checked, loan sharking was still illegal. The banking industry's questionable practices are fully protected under the law. If ever an industry needed to be more tightly regulated, it's credit card lending. A shark is a shark, even if it wears a suit and works in a building with marble floors.

Jim Sollisch is a writer in Cleveland.

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