

Can My Credit Card Company Do That?

Credit Cards & Predatory Lending



Dear ALRP:

I just received a notice in the mail that my credit card interest rate has nearly tripled from 7.5 percent to 18.5 percent. I just bought a car and was told that my credit rating was good. What is happening?

Sincerely,

- *Chagrined Consumer*

Dear Chagrined:

Unfortunately, you are now seeing the dark side of the information age. In the past, it was expensive and difficult for creditors to obtain information about you on an ongoing basis. Today creditors can easily obtain information about you at a low cost. If you read your agreement with the credit card issuer, you will notice a clause that allows the credit card company to reset your interest rate at any time. Combine easy access with authorization to change your interest rate and you end up with lenders perusing your credit report regularly and jumping at the opportunity to raise your interest rate every chance they get. That means applying for, and getting, a new loan (like your car loan) or missing a couple of payments could adversely and immediately affect your credit rating. Creditors do not have to wait for card renewal time to increase your interest rates.

Dear ALRP:

I just got offered a credit card, despite my abysmal credit rating. The interest rate seems pretty steep, but it is an unsecured card. I am really not wealthy and can ill afford the \$500 amount that I would need to put aside for a secured credit card.

Sincerely,

- *Baited Breath*

Dear Bait:

You are swimming in shark-infested waters. What you are encountering is commonly known as “predatory lending.” This is a common practice among credit issuers. A number of states are pursuing class action lawsuits against predatory lenders, including California, New York, and Pennsylvania.

The main reason credit card companies are preying on you is that they know you have a poor credit score and are probably desperate to get back in the credit game. Before you jump at their offers, remember: you have a poor score because you got into a credit hole. You have the power to avoid sinking deeper into the abyss, and if you are careful you can get yourself out of it. If you

cannot afford a secured credit card maybe the time is not right for you to get back into the credit game. Please remember, the final decision is yours, not a credit card company's.

Dear ALRP:

I just recently got a new Visa card. Now they are sending me special discount offers, insurance plans, and a credit protection package, all at a “nominal monthly fee.” They sound pretty attractive and I think I should go for them.

Sincerely,
- *Bill O'Goods*

Dear Bill:

Think twice. Most of these plans are schemes designed to guarantee that the credit card company is going to be able to get a regular monthly charge out of you, even if you don't use your credit card. This is one of the most egregious “predatory lending” practices.

The simple truth is that most people do not need these services. Even when someone does, s/he would probably get a better deal if they looked elsewhere. Never forget that you are a cash machine to the creditors. In other words: credit card companies are not your friends.

Dear ALRP:

Last month I was a little short on funds and used my MasterCard to tide me over with a cash advance. Now my interest rate is at the highest rate quoted for all my transactions. How come?

Sincerely,
-*Strapped*

Dear Strapped:

One of the things that most people do not understand in their credit card agreement is the provision that determines the interest rate for cash advances. Most people are unfortunately under the impression that the higher interest rate only applies to cash advances.

Creditors are not going to waste their resources in order to charge you two sets of interest rates, although some cards do offer different interest rates for cash advances and regular purchases. Read your credit card agreement carefully! If your credit agreement includes a clause that allows the creditor to increase your interest rate at any time, a creditor will likely go with a higher rate. It is more cost effective, as well as profitable for the card issuer. Most credit card agreements are “variable interest,” and they are always going to vary the interest rate to their advantage.

This Legal Q&A Guide was last revised in July 2011. It is intended to provide general legal information to people living with HIV/AIDS in California. However, because laws change frequently ALRP cannot ensure the complete accuracy of the information included. Please call ALRP at (415) 701-1100 to consult with an ALRP attorney about your legal rights in your particular situation.