

# DCC DOLLARS & \$ENSE

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## Increased Default Interest Rates

### *Special points of interest:*

- Penalty Rates and How to Avoid Them
- Increased Fees to be Aware of

Consumers that have made late payments on their credit cards should be aware that current default interest rates have been increasing as much as 30%. For consumers with multiple accounts this poses a much larger problem

than one may think.

It's been common in the banking industry to review a consumer's credit report periodically to see how they've been managing their credit. If, in the process of being reviewed, a consumer was found to have made a late payment or two, there are standard reactions from lending institutions. For example, they might reduce the credit limit, or increase the interest rate. Every creditor has the option of changing

the interest rate even if the late payment was made to a different company.

Recently the Fed increased its overnight lending rate by a  $\frac{1}{4}$  of a percentage point. Meaning anyone with a variable rate loan or credit card would see the same increase in his or her interest rate. This is the first of many expected increases this year. As rates from the Fed go up so do the rates from credit grantors.

This increases the significance of consumers making sure their payments are being made on time. Consumers with relatively low interest rates [10-15%] may find themselves paying twice as much in interest and twice as much in their monthly payments. Set aside the financial frustration from a \$30 late-payment fee for having a payment post a day late, now consumers are at risk for a rate hike on all of their accounts.

## Penalty Fees

Along with the potential for an increase in your interest rates, late payments are also beginning to cost substantially more, up to \$35 in most cases, not only for late payments but also for over-the-limit and past due fees.

According to a survey done by bank-rate.com in March of this year, the fee struc-

ture for the top ten credit card issuers is about the same. This structure seems to be the average and without competition between lenders to reduce it, the fees will stay the same for quite some time

For an example of the average, take MBNA:  
A balance of \$1000 or more, the late fee is \$35  
A balance of \$1000 or more and any amount over-

## Increased Default Interest Rates *Cont.*

In a recent survey done by bankrate.com it was found that the default interest rate for a consumer making a late payment was, on average, 25-30%. This in itself is enough to cause a financial difficulty if it occurred on only one card.

For consumers suffering a financial hardship, this will make it even harder to remain on top of their finances. Considering the average consumer debt load is approximately \$15,000 over a varying amount of cards, this increase could have a major impact. Not only will the amount paid to-

ward finance charges each month be increased, but also so will the payment requirements. Making it even easier for a payment to be made late. This could be detrimental to any consumer.

Now, more than ever it is important for an individual to scrutinize his or her finances. For consumers that can foresee any degree of difficulty making payments on time, they should immediately contact that creditor and explain the situation. If you've been on time in the past, your creditors should be willing to work with you.

## Penalty Fees *Cont.*

the-limit, the fees is \$35

Other credit grantors among the survey included Citibank, Provident, Bank One, American Express and Discover. Just about any credit card in your wallet could fall into this category.

Another point to consider is that the total of any fees applied are due with the next monthly payment. If the payment is not made in full, then a past due fee will be applied. Typically these are as much as the late fees on these accounts.

Fees accounted for 1/3 of the credit industries income in 2003. The fact of the matter is, the fee structure increases are reflected in the credit card company's profits, and it works. Over 25% of the income generated from fees, was from penalty fees. And with default interest rates clauses being written into credit agreements, it's only going to get worse.

## Ask DCC

### *Question:*

I currently owe 28,000 on credit cards. We recently found out that my wife may lose her job due to medical problems. If I stop payment on these credit cards what can they do to me? Can they take legal action and how will it affect my credit?

### *Answer:*

If you were to stop payment on the accounts, your creditors will follow through with collection efforts. That would include internal collection efforts as well as

sending the account to a collection agency. If enough time passes, they do have the ability to pursue legal action to collect on the debt. That could include a judgment and/or garnishment of wages.

The effect on your credit would depend on how long the accounts went unpaid. The longer the time period the greater the effect would be. The best thing to do would be to try to work out payment arrangements with your creditors for a temporary hardship.