

As seen in



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Credit card revenue relies more on fees

Many consumers pay bills late, and grace periods shrinking

By Christine Dugas
USA TODAY

Costly credit card fees are fueling industry profits at a time when many consumers can least afford them.

Late payment fees have increased 56% on average since 1998, according to industry tracker CardWeb.com. They now average \$31.05. But many big issuers charge \$35 or more.

Fee income is rising because more card holders pay their bills late. Penalty fees for infractions also are rising. And it's easier for card holders to slip up as grace periods shrink. At Citibank, the USA's largest credit card issuer, late fees range from \$15 on small-balance accounts to \$35 for balances of more than \$1,000. MBNA's late fees also start at \$15, but customers with balances of more than \$1,000 pay \$39.

Fees for balance transfers and cash advances have never been higher, says Robert McKinley at CardWeb.com. "More consumers bump into the fees," he says.

Traditionally, most credit card

revenue has come from interest payments consumers make on their balances. Credit card rates average about 14% even though interest rates generally are near historic lows. Punitive rates for card holders who pay late or go over credit limits can hit 29%. But fee income this year could account for 35% of industry revenue, up from 18% in 1995, says Robert Hammer, CEO of R.K. Hammer Investment Bankers.

Rising fees help account for the rosy financial picture for card issuers. The pretax return on assets for the industry, a key measure of profitability, averaged 4.2% last year, up from 3.1% in 1999, Hammer reports.

Among ways consumers get snared by fees:

- ▶ Card holders near their credit limit can get hit with a fee if interest charges push them over the limit.

- ▶ Some issuers have reduced the grace period card holders get on new purchases before interest payments kick in, or moved up the time of day by which payment must be posted, causing more customers to be late.

- ▶ Cash advances, which were generally capped at 2% with a \$2 minimum, are now subject to a 3% fee with a \$5 to \$10 minimum, McKinley says.

- ▶ Card issuers used to offer free balance transfers to attract customers, but now many charge 3%.

Fees have gone up in part to help offset the low rates that card issuers offer to attract consumers with sterling credit histories.

"Forced to waive annual fees and offer zero-percent APRs, most of the top issuers have laced their card programs with fee-producing gotchas," McKinley says.

Consumers who get hit are often already overloaded with debt. The average credit card debt is nearly \$9,000 per card-carrying household, according to CardWeb.com.

"Card issuers are shifting the cost to folks who are least able to pay for it," says Ken McEldowney of Consumer Action.

As seen in Experience TODAY



Credit card revenue relies more on fees, 1B

APPLICATIONS: *personal finance, decision making, business*

DISCUSSION: Who is profiting from the rise in credit card late payment fees? According to Robert McKinley of CardWeb, what is one reason for the increased charges? What are some of the “fee-producing gotchas” mentioned in the article? Do you think credit card companies are taking advantage of consumers? What can a consumer do to ensure that she or he is not hit with penalty fees? How can individuals keep their credit card bills manageable (e.g., by relying on cash, shopping around for the best rate, etc.)? What is the difference between credit and debit cards?

ACTIVITY: Imagine that you are sending your son or daughter off to college. In addition to paying for room, board, tuition and books, you are providing your child with spending money. In writing, explain how you would transfer the necessary funds to your child (e.g., by giving her or him cash, setting up a checking account, etc.). Also describe any financial advice that you would impart.

CURRENCY CONNECTION: What are the advantages of using cash instead of credit? What makes currency and credit cards valuable – i.e., more than just pieces of paper and plastic? Through research, explain and identify an example of the four functions of money: store of value, medium of exchange, measure of value and standard of deferred payment.

NATIONAL STANDARDS

NSS-EC.5-8.1 PRODUCTIVE RESOURCES

(Students) understand that choices involve trading off the expected value of one opportunity against the expected value of its best alternative. Students understand that the choices people make have both present and future consequences. (NCEE)

NSS-EC.5-8.2 EFFECTIVE DECISION MAKING

(Students) understand how to determine the best level of consumption of a product, people must compare the additional benefits with the additional costs of consuming a little more or a little less. (NCEE)

The New Color of Money Challenge

The USA TODAY Charitable Foundation supports the Federal Reserve System and Department of Treasury's campaign to raise awareness of the newly redesigned \$20 note and U.S. currency among students, teachers and parents.



Q: Which government agency is responsible for suppressing the counterfeiting of U.S. Currency?

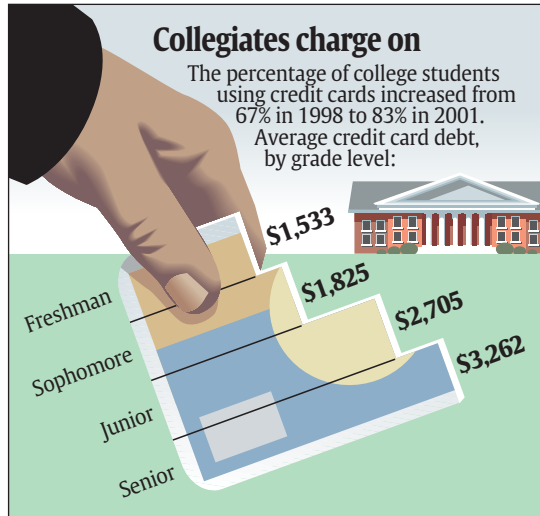
For more information about The New Color of Money and available materials and resources:

■ www.moneyfactory.com/newmoney ■ www.FederalReserveEducation.org ■ www.usatodayfoundation.org

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Money Matters

USA TODAY Snapshots®



Source: Nellie Mae

By Jillian Duchnowski and Sam Ward, USA TODAY

APPLICATIONS: *math, personal finance, responsibility*

By what percentage does the average college student's credit card debt increase each year? Why do you think the biggest increase in debt occurs between sophomore and junior years?

What are the advantages and disadvantages of using a credit card to pay for purchases? When does it make sense to pay with cash? What is the differ-

ence between a credit and debit card?

When an individual uses a credit card, he or she is responsible for repaying that debt, usually with interest. If a bank charges 18% interest per year (1.5% per month), how much interest would be assessed in one month on each of the balances in the Snapshot? In a year?

COMPLIMENTARY EDUCATIONAL RESOURCES

On October 9, 2003, the United States government began issuing currency with new designs and security features beginning with the \$20 note. The new \$20 design retains three of the most important, easy-to-check security features that were first introduced in the 1990s: a watermark, security thread and color-shifting ink.

As part of a national campaign to raise awareness about the newly redesigned currency, the U.S. government is making educational materials available to teachers. These materials, correlated to national educational standards, aim to teach students about our nation's currency. The program, part of a broader initiative supported by education, civic and volunteer organizations, includes a range of interactive educational activities:

► **Interactive CD-ROM** – Educational activities related to the history, security features and production process of the newly redesigned currency.

► **Classroom Activity Poster** – Information on the newly redesigned currency and activities that drive students to the web and interactive CD-ROM.

► **USA TODAY Educational Lessons** – Daily and weekly activities challenging students on current events related to financial literacy and the newly redesigned currency.

► **Currency Puzzle Challenge** – Students are to find pieces in three issues of USA TODAY, assemble them, and complete the related activities.

All of these educational materials are available free to teachers online at www.moneyfactory.com/newmoney and www.usatodayfoundation.org. For more information, email: education@usatoday.com or contact Katie Mee at 202-530-4518.