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2006: Creditors and the New Minimum Payment Due:



The minimum monthly payment on Joe Daly's credit card nearly tripled this month, to \$220. It couldn't have come at a less convenient time. During the holiday season, Daly, 27, of Toledo, OH., likes to buy multiple gifts for each of 20 family members, friends and colleagues. This year, though, the higher bill means everyone on his list will be getting just one present from him. Daly has also weaned himself off two habits: buying Starbucks coffee and candy at the drugstore. Even so, he worries those concessions won't be enough once his four other credit card issuers also raise their minimum payments. "If I miss a month, it'll go on my credit record and do far more damage than paying the debt over an extended period of time," he says. The concern is understandable, consumer advocates say. Many credit card issuers have waited until this year or early next year to raise minimum monthly payments, at a time when heating prices are high and a new bankruptcy law has made it harder to erase unsecured debt. "We have tremendous empathy and sympathy for these people," says Linda Sherry, director of national priorities at Consumer Action, an advocacy group. Over the long term, the banks' changes "are going to help them pay off their debt, but if they can't pay (now), that's not helping them much."



Other fees up, too

In recent years, banks have also ratcheted up fees for cash advances, late payments or spending over the credit limit, helping push consumers deeper into debt. The higher minimum credit card payments are the result of January 2003 guidelines issued by the Federal Reserve, the Federal Deposit Insurance Corp., the Office of the Comptroller of the Currency and the Office of Thrift Supervision.

Card issuers are supposed to adopt higher minimums by year's end. The federal agencies said they were acting after years of seeing credit card issuers lower minimum payments because of "competitive pressures and a desire to preserve outstanding balances." The agencies also expressed alarm that some banks were setting minimum credit card payments at levels that didn't even cover interest. The result: The debt loads for some consumers surged.

The changes target credit card holders who don't pay their bills in full each month. A survey this year by the American Bankers Association (ABA) showed that 43% of consumers carry a balance.

Matthew Holmes, 35, often makes the minimum payment. A real estate investor in Madison, Wisconsin, he uses his 15 credit cards to fund property purchases and usually pays off the debt within six months. "There's no reason for me to pay more than that, even if it's a high interest rate," says Holmes, who owes about \$20,000 on the cards. "My philosophy in this business is use other people's money if you can. Cash has a cachet in the business. You want to conserve it in those circumstances where it's required."

His opinion of higher minimum payments? "I really think it's a negative development and a big government encroachment into the decisions that should be made by private individuals."

Barbara Grunkemeyer, the OCC's deputy comptroller for credit risk, says that while the higher minimums "might be difficult for some borrowers, in the long run, this is the right thing to do."

Before the guidelines were issued, many banks required only 2% of outstanding balance to be paid each month. Imagine someone with \$10,000 of debt and an 18% interest rate. It would have taken nearly 58 years to pay this off, assuming that person stuck to the minimum payment each month, according to Bankrate.com's credit card calculator, at www.bankrate.com. Total interest paid during that time would be \$28,931. Now, the same person paying 4% of outstanding balance each month would pay off the debt in a more reasonable 15 years and would pay much less in interest: \$5,916.



Seeking leniency

At first, those who can't make the higher payments can ask their credit card issuer for leniency. "In the initial stages, (banks) will try to be fairly flexible," says Nessa Feddis, ABA's senior federal counsel. "The best thing to do is call the card issuer, and as long as you're paying something, you have a better chance of working something out."

This quarter, as a test, Chase is raising the minimum payments for some of its customers, says spokeswoman Jessica Iben. The company writes in an online notice to customers that "if this change creates a hardship for you, we have several options available to assist you."

But asking the issuer for assistance might not always be wise. That's because if the company sees you're having a hard time paying, it might consider you more of a risk and raise your interest rate. "I would be afraid of this," Sherry says.

Credit card lending consistently yields higher profits for large bank issuers than other activities, Federal Reserve data show. But these profits could fall if consumers pay off debt faster or can't pay it at all, leading to debt write-offs.

Banks are likely to try to make up for lost income by raising late and over-the-limit fees, among others, next year, says Michelle Grabow, a credit card product manager for Informa Research Services, which does market research for banks. These fees, which are rising, are now as high as \$39 per incident.

Could rewards be cut?

Credit card rewards programs could also be pared back, worries Chris King, of Skokie, Illinois. Even though higher minimum payments don't directly affect him — he pays off his balance each month — he believes the changes could ripple down.

"If these people aren't carrying (as much of a debt) load, and credit card companies aren't making money off them, then they could turn to people like us to cut our rewards," King says. Still, he favors higher minimum payments "because a lot of people view credit cards as free and easy money and end up getting in this quagmire where they're paying off bills for years."

Banks Are Raising The Minimum Payments

In case you weren't spending enough this holiday season to buy gifts and heat your home, you may have to take another hit: higher credit card payments.

Nearly three years after regulators said minimum monthly payments should let you pay off debt in a reasonable period of time, some banks are finally acting. Most of the top 10 credit card issuers have raised their minimum payments this year. And in most cases, they've done so this quarter. Regulators urged banks to adjust their minimum payments by the end of 2005. The banks' delayed response to the guidelines issued in January 2003 means millions of people are being hit with higher credit card bills this holiday season.

The increase comes just as energy bills are soaring and a new bankruptcy law has made it harder to erase debt.

"It's quite simply disappointing that banks have waited and have not increased the minimum gradually but are doing it during the holidays," says Ed Mierzwinski, consumer program director at the U.S. Public Interest Research Group.

Banks say it takes time to update systems to accommodate the regulators' instructions. "These are not simple changes," says Alan Elias, a spokesman for Washington Mutual. Still, "with a few exceptions, we expect them to be in compliance by year's end," says Barbara Grunkemeyer of the Office of the Comptroller of the Currency, one of the agencies that issued the guidelines.

Regulators didn't require minimum payments to rise by a fixed amount. But they said payments should cover fees and finance charges, plus 1% of principal.

Until now, some minimums didn't even cover the interest owed, so debt would just keep growing. Some card holders could see their minimum payment double, to 4% of the balance from 2%.

On a \$10,000 balance, the payment could jump to \$400 from \$200. In the long run, the change is healthy for consumers: It means they'll pay off their credit cards more quickly. But at least at first, the higher payments could create financial hardship.

John Penn of the American Bankruptcy Institute expects more filings from low-income consumers who can't handle higher credit card payments. "If one of your bills doubled, it won't knock you out of the game immediately," Penn says. "You'll be late on some other bills, and you'll scramble, and it'll catch up to you eventually." Yet it may not be feasible for some to declare bankruptcy.

"If (issuers) had done this a year ago, consumers who were underwater may have considered bankruptcy," but they may think twice about doing so after the stricter bankruptcy rules have taken effect, says Chi Chi Wu, staff attorney at the National Consumer Law Center.

