

The Credit Card Sinkhole

It didn't matter that the World Trade Center towers had just fallen or that her soldier husband was facing combat in Afghanistan or that the anthrax scare had slowed the

mail. The punishment for the California resident's late credit card payment: an interest rate increase to 27 percent, which added \$300 per month in fees to an already hefty balance.

Nor did it matter when the payment of another California cardholder arrived on the due date—but after the hour his card issuer had set as a deadline. He, too, got late penalties.

Such late fees are not illegal, but they

are often hidden in fine print. And if history repeats itself, 60 percent of credit card users will incur them this year—with the true cost sometimes extending far beyond the average \$33 penalty. The latest punishment—known as “universal default”—allows for virtually any late payment to trigger interest hikes and additional fees on other loans.

“A year ago, I'd say the most egregious penalty was tripling your credit card in-

terest rate for being one hour late with your credit card payment,” says Heather McGhee of Demos, a New York public policy research group. “Today, with universal default, if you're late paying your credit card bill, your insurance, mortgage or car loan rates can also increase.”

A single late payment can raise auto insurance rates as much as 50 percent. Most insurers now check for late payments in underwriting new business.

Meanwhile, if you're late paying your insurance premiums and most other bills, your credit card interest rate may double, says Ed Mierzwinski of the U.S. Public Interest Research Group in Washington.

Late payments to credit card companies can have other ugly consequences. “Even if the late fee is waived, what's usually not mentioned is a possible automatic increase in your card's interest rate,” says Robert McKinley, founder and CEO of CardWeb.com, a payment card research firm. This “punitive APR increase,” imposed by many credit card issuers, can raise your account interest rate to 30 percent or higher—and keep it there for at least one year.

A late card payment can also wipe away accumulated “rewards,” such as free air miles, or hold them hostage until a “reinstatement” fee is paid.

Not that card issuers make it easy for customers to pay on time. In addition to strict hour deadlines, bills are now mailed closer to the due date, leaving customers with one week less to submit payment than a decade ago.

Your protection: Mail all payments at



**Miss by a minute
and you might
pay more on *all*
your interest rates.**

least 10 days before their due date; online payments need at least three days' leeway. Some credit card companies allow phone-in payments, but typically charge \$15 per transaction. Overnight packages are often not accepted at the same address as snail-mail payments.

If you feel you've been victimized by excessive late fees, talk to your credit card company about dropping them. Or contact your state attorney general's office or the U.S. Office of the Comptroller of the Currency at (800) 613-6743 or www.occ.treas.gov/customer.htm.

—SID KIRCHHEIMER

FOR MORE ALERTS and a scam prevention worksheet, visit www.aarp.org/bulletin/consumer.

**\$14.8
Billion** is how much
credit card issuers
collected in late
fees in 2004.

SOURCE: R.K. HAMMER INVESTMENT BANKERS, THOUSAND OAKS, CALIF.