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Credit card companies' abuse has gone on long enough, says RICK KOSTER

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People can disagree about the scope of government, but one of its unquestioned functions is protecting the citizenry from thieves. Generally speaking, Texas does a good job. You can't rob banks or mug people in alleys and get away with it for very long. If you're a credit card company, however, you can prey on the unfortunate and unwary from El Paso to Texarkana, from Laredo to the Oklahoma line, with the blessing of the Texas Legislature.

Here are some of the abuses credit card companies routinely commit:

Bait-and-switch APRs. In an offer, the company advertises its premium annual percentage rate (APR), but the fine print on the agreement includes a clause whereby the company can substitute a lower-grade card if the applicant doesn't qualify for the premium rate. That lower-grade card costs more, on less attractive terms, than was ever mentioned in the offer.

You don't learn your rate until it's too late. Here, the company quotes a meaninglessly wide range of APRs – say, from 4.99 percent to 24.99 percent. Then, the company assigns APRs according to each applicant's credit history, denying applicants the right to know their rates before they sign up.

Tricky fees. Companies charge transaction fees for cash advances, balance transfers and special purchases, hiding the amounts and terms in the fine print. Minimum-fee policies, similarly buried, allow companies to extract high-fee income regardless of the amount of the transaction. For example, if the company charges a 3 percent transaction fee and a minimum fee of $10, the cardholder ends up paying 20 percent – $10 – for a cash advance of $50.

High-balance predators. Some companies specialize in preying on cardholders who run high balances. You can stay below the limit, pay on time and have a blameless credit record, yet the company will jack your rate up to the cash loan amount of 19.99 percent if you carry a high balance.

Ganging up. Under a provision called "universal default," you can have your credit card APRs skyrocket when you're a day or so late paying your water bill. Or you're late paying one card, and the APRs on all your cards go to the moon.

In brief, the way credit card companies operate gives loan sharking a bad name. The loan shark is at least honest about consequences. You know up front that if you welch, he'll break your legs, but unless you take a microscope to your card agreement, you won't know until it's too late about $39 fees for being an hour late on a $10 payment or penalty interest at 29 percent.

Finally, the company can change any of the terms of its credit card agreements whenever it wishes, whether you like it or not.

This predatory approach has nothing to do with making a fair profit by providing a service. It's not business; it's theft. We won't be able to stop it until Congress stops letting credit card industry lobbyists write credit law, but that doesn't mean we're powerless.

Since the Texas Constitution authorizes the Legislature to "define interest and fix maximum rates," it can take steps to protect Texans. Here are a couple I plan to introduce if I'm elected:

• Require companies to include warnings on their offers and to list their fees in the same bold fonts they use for their come-ons. Credit companies deserve to be classed with cigarette companies. They can't kill you, but they can make you wish you were dead.

• Bar companies and agencies from sharing account information. If you're behind on your phone bill, that's between you and the phone company. If you're paid up on one card, you shouldn't have your APR raised when you're late on another.

Working with new leadership in Washington and Austin, we can clean up the credit card business and end the fleecing of our citizens. Credit companies got the bankruptcy legislation they wanted. Now is our turn to end their abuse.

Rick Koster of Allen is a Democrat who is challenging state Rep. Ken Paxton in the race for Texas House District 70 in the November election. His e-mail address is rkoster@comcast.net.

What follows is a response from a concerned citizen

R Koster

I have a few more things to add regarding to Credit Card companies, and other lending institutions.

1) There is also double cycle billing in which customers are charged finance charges twice due to the double billing cycle.

2) Allocation of payments. If you have a balance with a low APR (cash adv), and a balance with a higher APR (purchases) the credit card company will apply your payments to the balance with the lower APR first so your account will rack up greater finance charges. They send you offers in the mail for low APR offers for balance transfers and

cash advances when you have a high balance for purchases, and customers do not see it coming.

3) They also only list the APR versus the Effective Annual Rate (which is greater due to compounding interest.

4) They also do not let you know how long it will take to pay off your account, and the total amount you will pay if you keep paying the minimum payment.

5) Banks only list the APY on CD's versus listing the APR. They do this because the APR is lower. They also offer a good APY on a short term CD (for example they will offer a 6% APY on a 6 month CD which is misleading. because the APR is around 5.84%, and the yield after 6 months is around 2.95%. Please note the numbers are rounded. The customer would have to renew at 6%(APY) in order to reap the benefits of the full yield, but the 6% offer may not be available. Their trick is to list the APY for accounts like CD's , and APR's for credit cards because it looks as if you are earning more and spending less.

I though Congress in the past was trying to pass legislation requiring them to do so. As a math person I derived the mathematical equations necessary to do so. Not all consumers understand the math behind credit financing, and creditors rely on that and therefore make billions due to the fact everyone is not well educated when it comes to mathematics. As you mentioned also there is the fine print to be concerned with as well. Do you know if they are trying to pass legislation regarding informing consumers about the time needed to pay off their credit cards along with the total in fees and payments?

In today's world banks rely on financial calculators to do their work for them versus using the real math. Many of these calculators contain errors due to rounding. I've e-mailed several banks and mortgage companies asking a simple question. I asked them what math formula would I need to calculated the monthly payments on an amortized loan with a fixed APR. Either they did not respond or the referred me to a financial calculator. Either they did not know or they did not want to tell me. As a math person I can derive it myself along with many other formulas used in finance. I wonder why America is still behind China and India in mathematics education. When you make it to the house I want you to push for an applied math course with financial applications for our public school children. I believe the more you know the more equipped you will be.

See if you can contact a financial institution and ask them for the amortization formula. If you are not successful I'll send it to you so you can put it in your next column.

I've contacted many financial institutions, and mortgage companies asking for the mathematical formula needed to calculate the monthly payments on an amortized loan and received either no response or a reference to a financial calculator. I did receive the formula, but not from someone in the USA, but from someone in Canada who designs software for mortgages. I've read on other websites that banks only have to disclose the APR, total payments,monthly payments and finance charges for amortized loans.

Here's something else. There are 3 major credit reporting agency who determine credit scores for consumers. They only can list factors involved that determine the score. Their response is that there is a complex mathematical algorithm used to determine your personal score. There exists another secret formula that consumers do not know, but it affects how much you pay on loans and credit cards. How fair is this. Someone has to do something about this because many consumers are being taken advantaged of because of the system. Here's something else. Universal default. How fair is this. If I've paid VISA on time for 2 years, and had one late payment with Discover this gives VISA the right to receive my payment history and charge up to 30 or 31%APR and simply rob me blind. As consumers we should just boycott the credit card industry,and pay cash and carry, but many businesses will not do business with you unless you use a credit card. These are the automobile rentals, hotel reservation, and the airlines.

There are usury laws in each state that cap interest rates (APR's) for different types of loans, and credit cards. There are also the payday loan companies who are basically robbing individuals with bad credit and low income. They originate the loans in Utah which has no caps on interest fees and give the loans out in other states. with a cap in texas around 31 to 33 percent for credit cards, and maybe around 29 percent or so for autos, these payday loan people charge up to 459.9 percent. Take Cash America, they charge 17.64 % on a payday loan for only 14 days and this has a whopping APR of 458.63%, but appears to be 17.64% to an uneducated consumer. I also recently contacted ACE America Cash Express, and they now charge $20.38 per $100 borrowed, and the APR is an amazing 531.34%. Banks can borrow from each other at around 6%, and from the feds at around 8%. The federal funds rate, and the discount prime rate, and these one digit percentages are at an annual interest rate.
In conclusion, these payday centers are cashing in on the poor, and not so financial savvy consumers.

I may be long winded, but there is much information consumers should know.