Clause Allows Credit Card Rates to Go Up Without Warning

Consumers Outraged Over 'Universal Default' Tactic

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A clause that some credit card companies are inserting into their terms of agreement might not get noticed by consumers who sign up, but if it kicks in, they won't be able to miss the numbers.

Send that check for the newspaper a little late, get a day behind on medical debt or fall back on paying your water bill, and some credit card companies will make you pay them -- even though your late payments had nothing to do with their bill, Target 5's Lisa Parker reported.

Karen Patton stumbled upon the practice, known as a "universal default" clause, while doing something few consumers take the time to do -- reading the fine print.

"I'm one of those strange people that will sit there and try to read through it," she said.

The universal default tactic is being used by more and more credit card companies.

"That's what set alarms off in my head: I thought, 'How could they increase my rate if a payment is late to a totally different company?'" she asked.

In Patton's case, the clause read:

"Each time you default under any Providian account agreement ... or are reported delinquent on an account with any other creditor, the APRs ... may increase up to 29.99 percent."

Patton said she can't see how the clause could be fair.

"Maybe it's not my fault -- maybe the mail is late or something else happened -- or the company didn't process it in a timely way, which I've had happen," Patton said. "How in the world can they have the right to change my rate for something that happened to a totally different company?"

A recent consumer group study found 44 percent of credit card issuers use universal default policies to boost interest rates.

Another consumer group sued Discover over the practice, alleging the nation's largest credit card provider used universal default to "siphon thousands of extra dollars from each account holder in the form of bogus fees and improperly levied finance charges."

Parker said consumers' inability to find anyone to take a stand on the issue proves frustrating for many.

State authorities like the Illinois Attorney General's Office say they would love to stop the practice, but only the states where credit card companies are incorporated have any real power over them.

"(Consumers) say to us, 'I pay this credit card timely, why should it make any difference what I do in another credit arena?'" said Deborah Hagan, who works with the attorney general. "The consumers to whom I've spoken feel it is very unfair."

It's widely assumed that credit card companies set up shop in states like South Dakota, Nevada and Delaware because those states' laws offer no usury cap on interest rates, and the states reportedly have little or no interest in taking on the powerful credit card industry.

Rep. Jan **Schakowsky** isn't shying away. The Illinois congresswoman is co-sponsoring a bill to stop universal default and other abusive lending practices.

"They can scour your credit report every month, looking for some reason to go ahead and raise your rates," **Schakowsky** said. "And when they put a little notice on your bill, saying that it's been doubled, for example, they don't have to tell you why."

Credit card companies defend universal default as their way of covering risk. If consumers start to fail on any of their debts, that can be the beginning of the slide toward bankruptcy, the companies claim. By jacking up the rate, the companies say they may recover some of the debt.

But some consumers say the tactic just completes a vicious cycle.

"You feel there's nowhere to go," Patton said. "And all of a sudden, I'm caught in the middle of this monolithic entity and I have no power as a consumer," Patton said.

The consumer group that sued Discover over universal default said that the credit card company has agreed to take the clause out of its agreements. Target 5 asked Discover for comment, but it did not return calls.

A spokesman for the banking industry confirmed that a number of credit card companies are expected to stop using universal default, but the man would not say if the stoppage was a direct result of threatened legal action.

But the promised stoppage could be a result of consumer outrage, Parker said.