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Squeeze or salvation?

Debt hole could get deeper as credit−card minimum payments rise

Frank Bilovsky

Staff writer

Watch your credit card bills. By the first of next year, your minimum payments could double.

Under new rules issued by the Office of the Comptroller of the Currency, credit card companies are being encouraged to increase the minimum payments, in some cases from 2 percent to as much as 4 percent of the balance. That means if you have a $1,000 balance, the payment could increase from $20 to $40 a month.

Rochesterian Juan Martinez carries a $500 balance on his Citibank card, which makes a monthly payment increase manageable. But not that many months ago, he had nearly maxed out the $5,000 limit after a divorce settlement.

And he's anything but enamored with the change.

"Most people are conscientious about paying their bills," he said. "They understand if they buy something on credit they have to pay for it. But things happen that you can't control and you have to do prioritization. You have to pay the mortgage and buy food and pay the gas and electric. And the credit card company, I'm sorry, is down on the list.

"And now the credit card companies are, by blunt force, trying to position themselves ahead."

Others say the changes won't alter their credit philosophy.

Corrin Acome, a 20−year−old RIT student from Syracuse, so far has paid off her bills each month. She said the new guidelines won't necessarily keep her from carrying a balance in the future.

"If I had to, I would," she said. "But it would be disappointing to pay it (the higher minimum). I would definitely be a little bit more worried about it."

Some of the big card issuers − JP Morgan Chase, Citibank, Bank of America and Discover among them − already have increased or are planning to up the minimum payment for many customers.

Chase, though, is waiting until it completes a series of "tests" in the fourth quarter of this year "in order to understand the best way to minimize the overall impact to the portfolio," said spokeswoman Jessica Iben. The bank will decide no later than January what its final policy will be.

Some financial experts are also finding flaws with the new guideline, even if they agree with the spirit of the law, which is being publicized as a way to help consumers pay off their debt more quickly and avoid heavy interest payments.

"Some people just assumed that this was just the banks' effort to get people out of debt," said Robert Manning, an RIT finance professor and author of Credit Card Nation. "That's not the case at all. It was simply the OCC's concern about the poor quality of certain portfolios.

"And it really couldn't have come at a worse time because we've had the spike in the gas prices and we're going to have a huge spike in energy prices in the winter."

The average U.S. household credit card debt topped $9,000 last year, and that kind of debt is being blamed as a prime reason that personal bankruptcies have risen in recent years.

Manning says the concern is valid. "If you had a $5,000 credit card loan and you were paying $100 (a month), it's now $200," he said.

And if you are maxed out, things can become worse.

"Then you can have a late fee or an over−the−limit fee," he said. "And here's the key: If you've been late, it triggers the escalator clause, so you might have a 24 or 25 percent interest rate."

Then monthly payments would become even higher, continuing the vicious circle of increased debt.

"It's incredible that credit card companies can become basically loan sharks," Martinez said. "From my point of view, it's like kicking someone when they are down. You're late because you can't pay (but) now we're going to make it even more difficult for you to pay. Then you're constantly going to be behind."

So what if you find yourself in a situation where you can't afford the minimum payments?

Chad Rieflin, education chairman at Rochester's Credit Education Bureau, says you might be able to enter the credit card company's hardship program.

"They will either change the payment arrangements for a temporary period of time so (payments) will be feasible, or they will suspend the monthly interest, therefore making the payments lower," he said.

Rieflin sees the good and bad sides in the new guidelines.

"In theory, it's a good thing because people will make payments and might think more about the balances they will incur and the future payments they will have to make," he said. "But if people already have balances, that's out the door. And you are stuck back trying to figure out how you are going to resolve some of the problems."

FBILOV@DemocratandChronicle.com

Tips

Here are some ways to avoid credit card abuse, from U.S. Bankruptcy Judge John C. Ninfo II, founder of the Credit Abuse Resistance Education program:

*Always have a budget and live within it.

*Don't have more than one credit card.

*Shop around for the best deal on a credit card − and make sure you read and understand the terms in the small print.

*If you can eat, drink or smoke it, don't charge it.

*Use a debit card, check or cash when possible and you'll spend less.

*If you are not paying the entire balance on your credit card or store charges, analyze why. Are you buying things you don't need? Understand the difference between wants and needs.

*Add up the outstanding balance on your credit cards and store charges at the end of the month to see how much you actually owe.

*Always have a plan to repay your debt. Don't use credit to get through hard times without first cutting expenses. Then realistically plan for how you will pay the credit back.

*When you cannot pay your bills every month without a loan from a credit card or line of credit, you are in serious trouble.

PHOTO CAPTION

Corrin Acome of Syracuse, right, shopping with Reagan Burns of Ithaca at RIT's bookstore, likes to pay off monthly balances. CARLOS ORTIZ staff photographer

Manning

Rieflin