

MIDYEAR AUTO INTROS

PATRIOT GAMES
THE GREAT 'MADE IN USA' ILLUSION



JUNE 2014 ConsumersDigest.com

Consumers Digest



TODAY'S BEST CREDIT-CARD OFFERS

- * 0% Introductory APR
- * No Annual Fee
- * No Foreign-Transaction Fees



Plus


- ◆ Innovative Home Computers
- ◆ New Advanced Driver Safety Systems

Best Buys

HOME COMPUTERS, MONITORS & PRINTERS • BLU-RAY DISC PLAYERS • PERSONAL WATERCRAFT • CAMPERS • TRAILERS • MINI FRIDGES • WINE CHILLERS • GENERATORS



DISPLAY UNTIL JUNE 30, 2014 \$4.99

A woman with blonde hair is shown from the chest up, looking down at a credit card she is holding over a white point-of-sale terminal. The background is blurred, showing what appears to be a retail or restaurant setting with warm lighting.

THE BEST CREDIT-CARD OFFERS

HOW THEY STACK UP

Many of the latest credit-card offers are more generous than ever before, but they're available only to consumers who have the best credit scores. Even then, almost all rewards programs are subject to a change in value.

By Emily Starbuck Crone

Five years ago, credit-card issuers warned that low annual percentage rates (APR) and generous credit-card offers would disappear forever as a consequence of the Credit Card Accountability, Responsibility and Disclosure (CARD) Act of 2009.

Those threats turned out to be “baseless,” says Linda Sherry of Consumer Action, which is a consumer credit advocacy organization.

The CARD Act curbed the capability of credit-card issuers to profit by unexpectedly increasing APRs and charging excessive penalty fees. Credit-card issuers tightened credit requirements after the CARD Act went into effect on Feb. 22, 2010, and for 2 years, it was difficult to find (and qualify for) credit cards that had low APRs and



Credit Report

Your Credit Score is

730

Nice Bonus: Credit Scores in Credit-Card Statements

At press time, Barclays, Discover and First National Bank of Omaha provide consumers with their FICO credit score, which is used by all major U.S. credit-card issuers, free on a monthly statement. This benefit appeared in 2013, and it caught our attention, because consumers typically obtain their FICO score free only once per year (through AnnualCreditReport.com).

Consumer Financial Protection Bureau now wants all credit-card issuers to provide free credit scores on monthly statements. U.S. Bank provides Experian credit scores online to its credit-card holders. Capital One introduced online in March 2014 an educational score that isn't from FICO. Citibank says it will provide free credit-score information on statements by February 2015, but the company hasn't said whether that score will be the FICO score.

We believe that the FICO credit scores that Barclays, Discover and First National Bank of Omaha provide are a nice benefit, but we have no indication of how current those scores are. In other words, your score might be at least a month old by the time that you read your statement, says Beverly Herzog, who is an independent credit-card expert and a financial writer. That might be a problem if a 10-20 point swing is the difference between you having an "excellent" credit score and a "good" credit score and, thus, better interest rates on loans.

If you plan to apply for a mortgage or make some other major purchase that requires a credit score, Herzog recommends that you obtain your free score from AnnualCreditReport.com or pay for your score from MyFICO.com rather than rely on your credit-card statement. When you get your report through those channels, you can be sure that the score is current and will remain the same for the next 2 weeks, she says.

generous rewards, says Alex Matjanec of MyBankTracker.com, which is an independent consumer banking resource.

That changed. As the economy improved, the competition between credit-card issuers increased and credit-score requirements loosened, says Dan Ray, who is the editor in chief of CreditCards.com, which is a comparison website. Consequently, today's credit-card offers are more generous than ever before, he says.

However, a big catch exists. Today, you must have an "excellent" credit score (read: 740 or above) to qualify for the best credit-card offers. (All major credit-card issuers in the United States use FICO scores, which are calculated from your credit data and range from 300 to 850.) That's a slight improvement from a year ago, when a consumer had to have a 750 credit score to qualify for the best offers, Sherry says.

If you have a credit score of between 700 and 739, which is considered to be "good," you still can take advantage of today's generous credit-card offers, but you probably will have to pay a price, such as an annual fee (as low as \$19 but as high as \$450 depending on the rewards program). You likely also will pay a higher APR than would a consumer who has "excellent" credit, and you won't be eligible for the credit cards that have the best introductory bonuses.

Still, "good" credit is preferable to having a credit score of 699 or below. In that case, an "average" or "fair" credit score will leave consumers unable to qualify for most credit cards. If you qualify, you'll pay an annual fee and a high APR for a card that has no bonuses and no rewards.

GOTCHA GAMES. The CARD Act limited the capability of credit-card issuers to charge excessive APRs and penalty fees, so credit-card issuers invented new types of fees. When we wrote about the CARD Act in "The Fine Print: Why Credit-Card Reform Comes Up Way Short" in our November/December 2009 issue, we noted that some credit-card issuers instituted annual fees of \$20-\$30 to help to compensate for the revenue that they would lose, because they no longer could charge excessive penalty fees. Unsurprisingly, those annual fees

increased since then. The average annual fee in 2012 was \$113, compared with \$80 in 2010, according to Ipsos, which is a research company.

What's good news is that in our evaluation of the 156 current credit cards from the 12 major credit-card issuers, we found that 93 cards (60 percent) have no annual fee. Of course, you typically must have excellent credit to qualify for a no-annual-fee card. If you merely have good credit, you likely will qualify for one of the 26 cards that we found that has no annual fee for the first year but an annual fee (typically \$95) for each subsequent year.

Speaking of introductory offers, Sherry tells us that she expects to see more credit cards dangle a zero percent introductory APR in the next 2 years. Zero percent rates were a common introductory enticement as recently as 2008, but the CARD Act mandated that introductory APRs must last a minimum of 6 months before they increase.

As a result, banks cut back on introductory offers that included a low APR of any amount. Only 40 percent of credit cards in 2009 included a reduced introductory APR, and zero percent introductory APRs were difficult to find, according to Ipsos. However, by 2012, 80 percent of credit cards included a reduced introductory APR, Ipsos says. We found that 61 credit cards (39 percent of the credit cards that we evaluated) now include a zero percent introductory APR for as little as 6 months and as long as 18 months.

After a credit card's introductory APR term expires, the APR typically varies from 10.9 percent to 24.99 percent, depending on the card and your creditworthiness. In 2009, APRs of between 20 percent and 40 percent were common even for those who had excellent credit. The CARD Act eliminated excessive APRs—those that are above 30 percent—and the average APR was 13.81 percent in March 2012, according to Bankrate.com, which tracks consumer interest rates.

However, APRs increased gradually since then. The average APR was 15.38 percent at press time, Bankrate says. Six months from now, APRs likely will be higher. When Federal Reserve raises

(Continued on page 44)

What you'll get if you have an 'average' or 'fair' credit score

Issuer	Credit Card	Introductory Purchase APR	APR	Sign-Up Bonus	Annual Fee	Rewards Program	Foreign-Transaction Fee	Arbitration clause
CAPITAL ONE	Platinum	None	24.9 percent	None	\$0 for first year; then \$19	None	None	No
CAPITAL ONE	QuickSilver One Cash Rewards	Zero percent on purchases and transfers for 8 months	22.9 percent after 8 months	None	\$39	1.5 percent cash back on all purchases	None	No
BARCLAYS	Barclaycard Rewards MasterCard For Average Credit	Zero percent for first 6 months	24.99 percent after 6 months	2,500 points after your first use	\$0	Two points per \$1 on fuel, groceries and utilities; one point per \$1 on other purchases	3 percent of each transaction	Yes

If you have an "average" or "fair" credit score (650-699), you won't qualify for most of the 156 credit cards that are in our list. In fact, we found only five that are tailored toward consumers who have average credit. Unsurprisingly, these have a short introductory rate (if any introductory rate at all) of zero percent and a high APR after the introductory period ends. Capital One's Platinum has a version (Classic Platinum) that has a zero percent APR for the first 8 months, but it includes a \$39 annual fee.

(Continued from page 42)

interest rates, as we expect it to do in 2014, the average APR will increase by 1 percentage point in a year, says Nessa Feddis, who is a senior vice president of American Bankers Association.

Besides relatively low APRs, more good news exists for those who have excellent credit. Ray tells us that in the next 2 years, you'll find more credit cards that have no foreign-transaction fees. A foreign-transaction fee is a fee (typically 3 percent of each transaction) that most banks charge on purchases that are made outside of the United States. We found 37 cards (24 percent of the credit cards that we evaluated) that have no foreign-transaction fee. In 2010, 91 percent of credit cards included a foreign-transaction fee, according to a study by The Pew Charitable Trusts, which is a public-policy organization.

Credit-card issuers are waiving foreign-transaction fees, because credit cards that don't have them encourage consumers to spend more during travel, says Beverly Herzog, who is an independent credit-card expert and a financial writer. Credit-card issuers profit more from interest if consumers spend more and carry a balance, she says.

Speaking of waiving fees, Citibank's Citi Simplicity is the only credit card that we found that charges no late fees and no penalty for any late payment. Granted, you'll pay interest on your balance, the late payments will be noted in your credit report and Citibank can revoke your card if you miss a series of deadlines. However, it's still good news whenever a credit-card issuer decides not to charge a fee. Discover's Discover It is the only other credit card that doesn't impose a late fee after a single late payment, but Discover will charge for each subsequent late payment.

We haven't heard of any other credit-card issuer that plans to eliminate late fees. The CARD Act set the maximum first-time late payment fee at \$25, but Consumer Financial Protection Bureau bumped it to \$26 on Jan. 1, 2014, to account for inflation. For any subsequent late fees in 6 months, credit-card issuers now can charge \$37, compared with \$35 immediately after the CARD Act went into effect.

REWARD CONFUSION. Although credit-card rewards programs are more generous than ever before, they have a disadvantage. Herzog tells us that the terms and redemption rules of rewards programs have become increasingly difficult to understand.

"There's a lot of legalese to read through," she says. "Capital One has a very straightforward rewards program on their cards, but most of the time, you need to talk to a person to understand what your rewards are."

As a result, most credit-card issuers started to provide so-called concierge services as part of their rewards cards in 2013, Herzog says. In this case, a concierge is a fancy term for a customer-service representative who can help you to redeem your rewards to book a plane ticket, make a purchase or get a discount on a rental vehicle.

You should be aware that the value of points isn't always easy to determine and can change at any time. Airline-branded credit cards are the most problematic. When you redeem your rewards miles, airlines will charge you a different amount of miles for a plane ticket depending on where you want to fly, what day you want to fly and the demand for that flight, says Brian Karimzad of Milecards.com, which compares credit-card rewards.

Southwest Airlines, for instance, announced that the points for its two Chase-issued Southwest Airlines Rapid Rewards credit cards would be devalued by 14 percent at the end of March 2014. In February 2014, Delta Air Lines announced that in 2015 it would give out points for its two American Express credit cards based on how much consumers pay for their tickets instead of how many miles that they travel.

"They can change the [value of points] when they see fit and have regularly done so for the past 30 years," Karimzad says.

Because airlines change their miles programs constantly, we believe that it's a good idea to look for a credit card that allows you to transfer your miles to multiple airlines instead of forcing you to use your miles on a single airline. Six credit cards—four from American Express, one from Barclays and one from Chase—provide this perk.

If you fly on the same airline all of the time, it makes sense to get an airline-branded credit card, says Matthew Kepnes, who is a travel writer and an expert on credit-card rewards. In the past 2 years, it became common for airline-branded credit cards to include airport-lounge access, free checked bags and priority boarding as benefits. You won't find those rewards in the American Express and Chase cards, but you'll have more versatility in finding a flight, because you'll be able to shop around between airlines. Now that's a benefit. ●

Emily Starbuck Crone is a freelance reporter who has written about the credit-card industry for 7 years.



Go to ConsumersDigest.com to see a complete list of all 156 credit cards that we evaluated.