



The Basics

Bank of America blindsiding cardholders?

The nation's biggest bank is doubling interest rates for some of its most responsible credit card customers.

By [BusinessWeek](#)

Credit card issuers have drawn fire for jacking up interest rates on cardholders who aren't behind on payments but whose credit scores have fallen for other reasons. Now, some consumers complain, Bank of America is increasing rates based on no apparent deterioration in their credit scores at all.

The major credit card lender in mid-January sent letters notifying some responsible cardholders that it would more than double their rates to as high as 28%, without giving explanations for the increases, according to copies of five letters obtained by BusinessWeek.

Fine print at the end of the letter -- headed "Important Amendment to Your Credit Card Agreement" -- advised calling an 800-number for the reason, but consumers who called say they were unable to get a clear answer.

"No one could give me an explanation," says Eric Fresch, a Huron, Ohio, engineer who is on time with his Bank of America card payments and knows of no decline in the status of his overall credit.

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Bank of America spokeswoman Betty Riess confirms some bank cardholders could be receiving rate increases for reasons other than declines in credit scores, such as running higher balances with their Bank of America cards or with other creditors. She says the increases are part of a "periodic review" that assesses customers' credit risk.

Reiss declined to say if the Charlotte, N.C., bank had changed its credit standards, thereby bumping some consumers' rates, or how many cardholders were being affected by the review. Bank of America has 40 million U.S. credit card accounts.

Arbitrary and aggressive

Buzz about the letters is building on the Internet. Since mid-January, [Credit.com](#), a credit card information site, has received 40 complaints from consumers whom Bank of America notified of sharp rate increases, even though they were current on their bills, says Emily Davidson, a Credit.com researcher. Complaint sites [My3cents](#) and [Bank of America: Bad for America](#) say they have received similar complaints.

The so-called opt-out letters give borrowers the option of no longer using their cards and paying off their balances at the old rates. But they must write Bank of America by later this month if they plan to do so. If they don't, their rates on existing and new balances automatically will rise.

What's striking is how arbitrary the Bank of America rate increases appear, credit industry experts say.

In recent years, many card companies have turned to a practice called "risk-based pricing," in which they will raise a regular paying consumer's rate because of a decline in the person's FICO score. FICO is a credit-risk score developed by Fair Isaac that includes a number of risk metrics the

Minneapolis company doesn't disclose.

Credit reporting bureaus supply creditors with FICO scores along with other data, such as late payments and debts owed.

In a December hearing spearheaded by Sen. Carl Levin, D-Mich., senators slammed big card companies for using such pricing with customers who pay on time. By law, credit card lenders can change terms as long as they notify borrowers. Even so, JPMorgan Chase and Citigroup announced ahead of Levin's hearing that they would stop the practice of raising card rates based solely on FICO scores.

But Bank of America appears to be taking an even more aggressive stance because, beyond credit scores, it is using internal criteria that aren't available to consumers. That makes the reasons for the rate increases even more opaque.

"Congress has faulted credit card companies for lack of transparency in raising rates," says William Ryan, a financial industry analyst at Portales Partners, a New York research firm. "Bank of America is bringing it to a new level."

Analysts also say they are surprised by the magnitude of the rate increases Bank of America is imposing on affected cardholders.

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Michael Jordan, 25, a software developer who lives in Higganum, Conn., says he received a letter from Bank of America in late January advising him that his card rate would rise from 9.99% to 24.99%. The software developer, who earns \$80,000 a year, says he was "shocked" because his payments had been on time and his credit scores hadn't changed in the past year.

In fact, Jordan says, he has only \$4,500 in overall outstanding credit card debt on two cards and that, on the Bank of America card in question, he had paid down his balance to \$3,000 from \$3,700 in August.

"His rate increase seems unjustified based on his credit profile," says David Robertson, the publisher of The Nilson Report, a credit industry trade publication.

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When Jordan called Bank of America about the higher rate, he says, the bank representative couldn't explain why his rate was going up. On a second call, he adds, the individual told him the reason for the increase was that he hadn't been paying down his balance fast enough, though he had lowered it by 19% in the past six months and was now utilizing only 54% of his \$5,500 credit limit.

Riess, the Bank of America spokeswoman, declined to discuss individual rate increases or to list all the criteria the bank was using as reasons to raise rates on existing cardholders.

Analysts say the bank's move is obviously aimed at shoring up profits. On Jan. 22, Bank of America reported a 95% decrease in fourth-quarter earnings due mostly to increases in loan-loss reserves for consumer credit, including rising card charge-offs and write-downs in mortgage-related securities.

[Rejecting the new rates isn't easy](#)

Bank of America faces another profit sinkhole with its pending acquisition of troubled Countrywide Financial. Portales' Ryan notes that boosting rates on existing credit card holders is one of the quickest levers a bank can pull to try to boost earnings.

Bank of America hasn't made it easy for consumers to reject the new rates. The letters require that consumers write Bank of America to agree to no longer use their cards and pay off existing balances at the old rates -- they can't telephone to do so, nor does Bank of America provide a form or a return envelope.

Moreover, consumers don't have much time to respond. Cardholders say they got the letters in the latter half of January: Four of the letters obtained by BusinessWeek require a written response by Feb. 19, while the fifth requires a response by Feb. 29.

A response, of course, assumes consumers read the letter from Bank of America as they sort junk mail. "It's a reasonable assumption that most don't," says Karen Gross, a legal scholar on consumer credit and the president of Southern Vermont College.

Bank of America also benefits from consumers who do agree to pay off balances at the old rates and not use their cards again, says Nathan Powell, a credit analyst research firm RiskMetrics Group.

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The bank, he says, is clearly trying to protect itself from worsening credit card charge-offs ahead, something analysts widely expect in the card industry as the economy deteriorates.

Powell says the bank must have identified a list of other credit criteria besides FICO that it is using to screen cardholders and determined it's no longer worth new business if they don't accept the higher rates.

So far, Bank of America's charge-off rates have risen in line with the credit card industry, up to 5.08% of receivables at the end of the fourth quarter from 4.57% a year ago. "The bank doesn't want to get behind the curve," Powell says.

Bank of America is trying to get ahead of Amanda Pennington, 29, of Euless, Texas. She says the bank raised her credit limit three months ago from \$5,000 to \$8,000 because of her strong payment history. Then she got the letter from the bank in mid-January notifying that her rate would rise from 15.74% to 25.99%. When she called, she says, the bank told her it was raising her rate because her balance was now too high, though it was still under the higher new limit the bank had previously granted.

After paying tuition for a community college course, transferring another balance and paying for daily expenses, Pennington's Bank of America debt now stands at \$7,500. Bank of America declined to comment on individual customers.

Adam Levin, the CEO of Credit.com and former head of New Jersey's Division of Consumer Affairs, says he is surprised Bank of America would risk bad public relations with its rate increases, given the congressional hearings in December.

The bank risks alienating new customers and existing ones by being so brazen, he says, adding, "Either Bank of America has more financial troubles than it is willing to admit or it has a level of institutional arrogance that is unacceptable."

This article was reported and written by Robert Berner for BusinessWeek.

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