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Best & worst credit cards
36,000 readers tell which to hold and which to fold

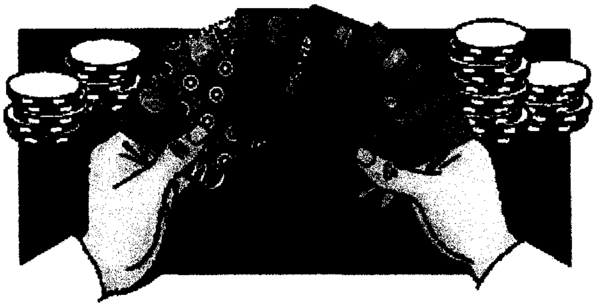

Illustration by Edwin Fotheringham

Credit cards might look pretty much alike, but our new survey shows vast differences in how pleased people are with their plastic. And we're not just talking about interest rates, which vary widely from one card to another.

The survey, conducted by the Consumer Reports National Research Center, covered 36,298 readers' experiences with 61,944 cards. It found that consumers had far fewer billing headaches and other problems with the card issuers at the top of the Ratings (available to subscribers). By contrast, some of the biggest banks (and most ubiquitous credit-card advertisers) earned scores that put them at or near the bottom of our Ratings (available to subscribers).

The card issuers that scored exceptionally well in our Ratings--USAA Federal Savings, the Navy Federal Credit Union, and a group of other credit unions--also charged median interest rates between 9 and 11 percent, compared with the 17 percent imposed by the two issuers at the bottom of the Ratings.

Consumer Reports Video
MONEY SMARTS

Catching credit errors
View video

USAA Federal Savings, which issues American Express- and MasterCardbranded cards, earned a reader score of 95 out of a possible 100. That's one of the highest scores we have seen in recent years. The Navy Federal Credit Union, which offers MasterCard and Visa, was also very highly rated by our readers, as were the other credit unions.

"Credit unions are run by members, so they have a vested interest in providing credit at very low rates," says George Overstreet, a University of Virginia finance professor who studies creditunion operations. "And they are more focused on keeping their members happy, while banks have to worry more about keeping their investors happy."

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Ratings *Credit-card issuers*

Better ← → Worse

In order of reader score.

Issuer	Reader score	Median interest rate	Interest-rate problems	Bill-timing problems	Problem resolution
	0 100				
USAA Federal Savings	95.	9%	◓	◓	◉
Navy Federal Credit Union	93.	11	◓	◓	-
Other credit union	89.	10	◓	◓	◓
Cabela's	88.	14	◓	◓	-
Nordstrom	85.	14	○	◓	-
American Express	84.	14	○	○	◓
Discover	81.	15	○	○	◓
National City Bank	79.	13	○	○	-
Juniper Bank [1]	78.	15	○	○	-
Target	77.	17	○	◓	-
US Bancorp	76.	15	○	○	○
Wells Fargo	75.	13	○	○	○
Citibank	75.	15	○	○	○
First National Bank of Omaha	74.	13	◒	○	-
Bank of America	73.	13	○	○	○
HSBC	73.	16	○	○	◒
JPMorgan Chase	72.	14	◒	○	○
MBNA [2]	72.	14	◒	○	○
Capital One	71.	10	◒	○	◒
Direct Merchants [3]	67.	17	◒	○	-
Providian [4]	61.	17	●	◒	●

"-" indicates insufficient data. [1] Now Barclays Bank Delaware. [2] Now part of Bank of America.
[3] A brand of HSBC. [4] Offered by Washington Mutual.

GUIDE TO THE SURVEY

Ratings are based on responses from 36,298 *Consumer Reports* subscribers who completed the 2006 Annual Questionnaire online and told us about their experiences with 61,944 credit cards. **Reader score** reflects how respondents rated their overall satisfaction with the company issuing their credit card and is not limited to the factors listed. A score of 100 means all respondents were completely satisfied; 80 would mean very satisfied, on average; 60, fairly well satisfied. Displayed scores are rounded; issuers are listed in order of precise overall score. Differences in reader scores of less than 6 points are not meaningful. **Median interest** rate is on balances from purchases, as reported by respondents for interest-bearing cards only. The following scores are relative and indicate respondents' ratings of each issuer compared with the average: **Interest-rate problems** refers to unexpected rate increases or rates that turned out to be much higher than initially offered. **Bill-timing problems** indicates whether respondents said their bills arrived too late to send payments in on time, or whether they were assessed late fees even though they sent payments a week in advance. **Problem resolution** reflects difficulties getting problems resolved when respondents contacted the card issuer for support. Note that our subscribers are not necessarily representative of the general U.S. population.

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The details

The USAA card is limited to members of the military, retired military personnel, and their families. However, almost anyone can join a credit union these days, and it might be a good idea, if only for a good credit card.

Years ago, credit-union membership was restricted to people who were closely connected in some way: They worked for the same employer, lived in the same town, or attended the same house of worship. But regulators have loosened many of the membership restrictions, so people can now join the same credit union if they work in the same industry, live in the same general geographic area, or share a common religion.

Two retailers--Cabela's, which sells sporting equipment, and Nordstrom, an upscale department store--also scored very well. Both companies charge average interest rates on their Visa cards and have a long history of superior customer service. For example, both promise 100 percent satisfaction on purchases and will accept returns or exchanges for any reason. Nordstrom even pays the postage for exchanges sent through the mail.

At the other end of the spectrum, the two issuers at the bottom of our Ratings (available to subscribers), Providian and Direct Merchants, charged the highest median interest rates reported in our survey: 17 percent. Survey respondents gave Providian the worst marks for unexpected interest-rate hikes. Providian cardholders reported that they had more trouble with bills that arrived too late for them to get their payments in on time or were more likely to be assessed late fees even when they sent their payments a week before the due date.

The nation's five largest MasterCard and Visa issuers--JPMorgan Chase, Bank of America, Citibank, Capital One, and HSBC, which control almost 80 percent of the Visa and MasterCard market--all had undistinguished scores. More of our readers who used those banks' cards complained that they were assessed unfair late fees or experienced unexpected interest-rate increases than did readers who held cards from the top-rated issuers. And none of them was exceptional at resolving problems.

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Fees, more fees, and little help

WHAT A CARD Capital One's TV ads, featuring humorous barbarians like this fellow, have helped it capture a large share of the credit market. But our readers with Capital One cards were largely unimpressed by the company.

One reason to shop for a good card is that a bad one can be very bad indeed. And they're getting worse.

Despite congressional hearings chastising issuers for excessive charges, and the introduction of several bills in Congress this year that would clamp down on such practices, fees continue to climb. Penalty fees for late payments have more than doubled in the past 12 years, from an average of $13 in 1995 to $28 this year, with some as high as $39, according to a 2007 credit-card survey by the watchdog group Consumer Action. And after just one late payment, cardholders can get hit with a penalty interest rate as high as 32 percent.

Ann Morris, a reader in Media,Pa., told us she misread her credit-card bill one month, resulting in an underpayment of $200. Her card issuer then slapped her with a finance fee of $100. "This was a one-time mistake. We always pay our bills," she says. "With these kinds of practices it's no wonder so many people are swamped in credit-card debt."

A September 2006 Government Accountability Office study also noted new hidden fees, such as charges for making payments over the phone, which can range from $5 to $15, even when the payments are on time.

In addition, many lenders play tricks when calculating what you owe. Some will keep the interest clock ticking from the time they calculate and mail your bill until they receive your payment. If you've been carrying a balance and try to pay the bill in full, you'll find you still owe interest for that additional period. Then there's the old trap called double-cycle billing, which lets you avoid interest charges only if you have paid your two previous balances in full.

When Citibank announced earlier this year that it would eliminate a nasty practice called universal default, there was some hope among consumer groups that other issuers would follow suit. Universal default allows the issuer to boost your interest rate if you make late payments on other accounts, such as car loans, mortgages, or other credit cards, even if you have a spotless repayment history on that particular card.

But Consumer Action's survey, issued in May, noted that many cards still employed universal default."And if you carefully read the change-in-terms section of most disclosure statements, most say that the issuers can change the terms of the cardholder's agreement at any time for any reason, language that amounts to the same thing as universal default," says Ruth Susswein, deputy director of national priorities for Consumer Action. "There is no other contract in the world that can change its terms at any time."

Our survey also found evidence of the damage that universal default can inflict on cardholders. Fully 28 percent of our readers who were paying the highest interest rates (more than 25 percent) reported that their rate had increased due to a universal-default clause.

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What customer service?

Our survey respondents also reported wide differences in how their card issuers treated them when something went wrong – not an uncommon occurrence in the world of credit. Among the issuers for which we had sufficient data to rate customer service, USAA Federal Savings earned a top score, while other credit unions, American Express, and Discover were also highly rated. Capital One and HSBC were judged below average, and Providian had the lowest score.

Overall, 27 percent of survey respondents who called customer support reported trouble in obtaining help from a customer representative. Problems included unreasonable waits, difficulties navigating automated voice systems, or having to make multiple calls or speak to several staffers. Twenty percent of the time the problem took too long to resolve or was never satisfactorily fixed, our readers said.

If your credit card issuer fails to address your problem, you might have little recourse. Most issuers include mandatory arbitration clauses in their agreements, which force you to give up your right to sue and instead agree to let an outside arbitrator settle any disputes.

"Generally the arbitration companies earn their money from the credit-card issuer," Susswein says. An analysis by the Christian Science Monitor found that one of the nation's largest arbitration firms ruled in favor of credit-card companies 96 percent of the time.

If the deck is stacked against consumers that way, that's all the more reason to play your cards right.

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Which way to pay: Credit, debit, check, or cash

Illustration by
Edwin Fotheringham

Use a credit card for most large purchases, especially if you usually pay off your balance each month. Credit cards offer greater protection than other forms of payment. If your number falls into the wrong hands, you're liable for only the first $50 in charges, and most large issuers waive liability altogether. If you have a legitimate beef with a seller, it's relatively easy to have the charges removed until the dispute is settled, if you report the matter to the issuer within 60 days after the charge appears on your statement.

Use a debit card when you don't mind having the money withdrawn immediately from your checking account. Debit cards are a surefire way to avoid onerous credit-card interest charges. But you will need to keep track of how much money you have in your account so you don't incur equally onerous overdraft fees, which average around $30. Your liability with a debit card is limited to $50 only if you report the problem within two business days of discovering it. After that the limit leaps to $500, and there's no limit if you wait more than 60 days. Debit cards also provide less protection if you decide to dispute a charge with a merchant. Once the money's gone from your account, you can ask your bank to intervene in the dispute, but it doesn't have to.

Use a check if you need to make a large purchase somewhere that won't accept credit or debit and you don't want to carry cash. Canceled checks can also be useful as receipts or for tax purposes. If a check disappears, you can stop payment on it. Of course your bank is likely to charge you a stop-payment fee, which could run as high as $30.

Use cash whenever you like, as long as you can afford to lose it. There's no fear of identity theft, and it's accepted almost everywhere. But you won't have evidence of payment unless you save a receipt. Nor will you have the leverage that a credit card provides in a dispute.

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How to pick the right card

If you pay off your card each month, look for one with no annual fee. The interest rate will be of less concern.

If you often run a balance, make getting a low interest rate your top priority. The first three issuers in our Ratings (available to subscribers) would all qualify.

If you want to get something back, opt for a reward card, but only if you don't expect to carry a balance. Reward cards often have annual fees and tend to charge interest rates 1 to 2 percentage points higher than other cards, which can quickly negate any rewards. Before you sign up, make sure the card matches your purchasing patterns. For example, some cards don't pay points for purchases at certain retailers, such as warehouse clubs. The most flexible reward cards let you choose your prize: cash back, air miles, or gift certificates. You can find a list at *www.bankrate.com*.

If you want to switch your balance, search for a new card with a "zero percent" introductory rate on balance transfers. But switch only if you can pay off the balance during the intro period. Zero percent rates used to last for a year or more, but now they disappear in as little as six months. At that point you'll typically be bumped up to current rates, which recently averaged about 15 percent. Also ask about any balance-transfer fee; many issuers will charge you 3 percent of your balance. That fee is usually capped at $50 or $75, but recently many issuers have removed the limit.

If you want the fewest hassles, head to a credit union. USAA or Navy Federal would be a good choice if you have a military connection. In general, credit unions not only charge lower rates but also provide superior customer support. And they might offer the same reward programs as other cards. Some credit unions allow members' relatives to join, so consult your family to see who belongs to one. Ask your benefits department if there's one for people in your line of work. Or search by your ZIP code on the Web site of the Credit Union National Association, which lists the 8,700 groups in the U.S. (*www.creditunion.coop*).

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Save $50 with a phone call

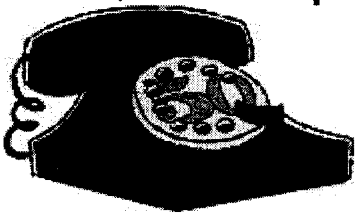

Illustration by
Edwin Fotheringham

One call to your credit-card company could win you a lower interest rate or get you out of a penalty fee.

So before you switch to another credit card in search of a lower interest rate, first call your current issuer to see what it's willing to do for you. Assuming you've been a good customer, the issuer might agree to waive fees or lower your interest rate to retain your business. Plus, the longer you stay with a particular card issuer and maintain a good record of payments, the higher your credit score will be. In our survey, readers who called their card issuers to negotiate a lower interest rate succeeded more than 50 percent of the time. And 79 percent of readers who tried were successful in persuading their card issuer to waive a penalty fee.

In another recent survey the Consumer Reports National Research Center found that 57 percent of people who bargained with their banks or card issuers over fees saved $50 or more.