

Credit card's newest trick: 79.9 percent interest

This credit card's newest trick? A 79.9 percent interest rate



By Candice Choi, AP Personal Finance Writer , On Thursday December 17, 2009, 6:38 pm EST

NEW YORK (AP) -- It's no mistake. This credit card's interest rate is 79.9 percent.

The bloated APR is how First Premier Bank, a subprime credit card issuer, is skirting new regulations intended to curb abusive practices in the industry. It's a strategy other subprime card issuers could start adopting to get around the new rules.

Typically, the First Premier card comes with a minimum of \$256 in fees in the first year for a credit line of \$250. Starting in February, however, a new law will cap such fees at 25 percent of a card's credit line.

In a recent mailing for a preapproved card, First Premier lowers fees to just that limit -- \$75 in the first year for a credit line of \$300. But the new law doesn't set a cap on interest rates. Hence the 79.9 APR, up from the previous 9.9 percent.

"It's the highest on the market. It's the highest we've ever seen," said Anuj Shahani, an analyst with Synovate, a research firm that tracks credit card mailings.

The terms are eyebrow raising, but First Premier targets people with bad credit who likely can't get approved for cards elsewhere. It's a group that tends to lean heavily on credit too, meaning they'll likely incur the steep financing charges.

So for a \$300 balance, a cardholder would pay about \$20 a month in interest.

First Premier said the 79.9 APR offer is a test and that it's too early to tell whether it will be continued, according to an e-mailed statement. To comply with the new law, the bank said it will no longer offer the card that has \$256 in first-year fees as of Feb. 21, 2010. However, customers will still be able to use their existing cards. The bank said "no final decisions" have been made regarding any rate changes for those cards.

First Premier noted that it needed to "price our product based on the risk associated with this market."

The bank declined to specify how many people were offered the 79.9 APR card.

According to First Premier's Web site, the credit cards are serviced by its sister organization Premier Bankcard. The company, based in Sioux Falls, S.D., says Premier Bankcard is the 10th largest issuer of MasterCard and Visa cards in the country, with more than 3.5 million customers.

In a mailing sent to prospective customers in October with the revamped terms, First Premier writes "...you might have less-than-perfect credit and we're OK with that." The letter notes that an online application or phone call is still required, but guarantees a 60-second status confirmation.

The letter also states there are no hidden fees that aren't disclosed in the attached form. That's where the 79.9 percent interest rate and \$75 annual fee are listed. There's also \$29 penalty if you pay late or go over your \$300 credit limit.

Even if First Premier doesn't stick with the 79.9 APR, it will likely hike rates considerably from the current 9.9 percent to offset the lower fees, said Shahani of Synovate.

The revamped terms may not be the only changes; First Premier also appears to be moving away from the riskiest borrowers.

The bank typically mails offers to subprime households, meaning those with credit scores below 700. In the third quarter, however, 84 percent of its offers were sent to subprime households, down from 91 percent the same period last year, according to Synovate.

First Premier could be cleaning up its credit card portfolio since the new regulations will limit its ability to raise interest rates. That could mean First Premier won't issue cards as liberally to those with bad credit.

As harsh as First Premier's terms seem, that could be a blow to those who rely on the card, said Odysseas Papadimitriou, CEO of CardHub.com.

"Even when the cost of credit is astronomical, for people in true emergencies, it's much better than not having access to credit," said Papadimitriou.

Until Feb. 21, First Premier is still offering its even-higher-fee card online. So the price for credit the bank charges is at least \$256 in first-year fees.

Copyright © 2009 The Associated Press. All rights reserved. The information contained in the AP News report may not be published, broadcast, rewritten, or redistributed without the prior written authority of The Associated Press.

Copyright © 2009 Yahoo! All rights reserved. [Privacy Policy](#) - [Terms of Service](#) - [Copyright Policy](#) - [Report Problems](#)

Quotes and other information supplied by independent providers identified on the Yahoo! Finance partner page. Quotes are updated automatically, but will be turned off after 25 minutes of inactivity. Quote data delayed 15 minutes for Nasdaq, NYSE and Amex. Real-Time continuous streaming quotes are available through our premium service. You may turn streaming quotes on or off. All information provided "as is" for informational purposes only, not intended for trading purposes or advice. Yahoo! is not an investment adviser and does not provide, endorse or review any information or data contained herein.