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## **A Squeeze on Customers Ahead of New Rules**

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Banks are struggling to make money in the [credit card](#) business these days, and consumers are paying the price. Interest rates are going up, credit lines are being cut and a variety of new fees are being imposed on even the best cardholders.

One recipient of new credit card terms is Anita Holaday, a 91-year-old in Florida, who received a letter last month from Citibank announcing that her new interest rate was 29.99 percent, an increase of 10 percentage points.

“I think it’s outrageous they pursue such a policy,” said Susan Holaday Schumacher, Ms. Holaday’s daughter, who pays her mother’s bills. “That rate is shocking under any circumstances.”

While the average interest rates charged by [banks](#) are lower than Ms. Holaday’s, her situation is not all that unusual. The higher rates and fees reflect the grim new realities of the credit card industry — the percentage of uncollectible balances has hit a record even as a new law may further limit the cards’ profitability.

Banks began raising interest rates and pulling back credit lines about a year ago as delinquencies crept upward and regulators discussed reforms. As banks have become more aggressive in making changes, lawmakers have accused them of trying to impose rate increases

before many of the new rules take effect in February.

On Monday, the [Federal Reserve](#) provided new evidence of the banks' actions. About 50 percent of the banks responding to the Fed's survey said they were increasing interest rates and reducing credit lines on borrowers with good [credit scores](#). About 40 percent said they were imposing higher fees. The banks also said they were demanding higher minimum credit scores and tightening other requirements.

A study by the Pew Charitable Trusts, released late last month, concluded that the 12 largest banks, issuing more than 80 percent of the credit cards, were continuing to use practices that the Fed concluded were "unfair or deceptive" and that in many instances had been outlawed by Congress.

In response to voter complaints, the House of Representatives voted last week to make the law effective immediately. The bill now goes to the Senate, where a vote has not been scheduled. The Senate Banking Committee chairman, [Christopher J. Dodd](#), Democrat of Connecticut, meanwhile, is pushing legislation that would freeze interest rates on existing credit card balances until the law takes effect.

Whatever the starting date, the law makes it much harder for banks to change interest rates on existing balances, and requires more time and notice before a new rate can go into effect.

In their defense, banking officials say they have no choice but to raise rates and limit credit. Because of the new rules and the prolonged economic malaise, they say it is now far riskier to issue credit cards than it was just a few years ago.

"We sell credit; we don't sell sweaters," said Kenneth J. Clayton, senior vice president for card

policy at the American Bankers Association. “The only way to manage your return is through the price of the product or the availability.”

The nation’s largest banks are scrambling to figure out a new business model that fits within the new rules and current economic conditions. Those banks made handsome profits over the last decade by charging high interest rates and penalty fees to a small group of customers who routinely paid late or exceeded their balances.

Already, banks are shifting to a model in which a smaller pool of Americans will be eligible for credit cards, and customers with cards will probably pay more for the privilege through annual fees and higher interest.

Meanwhile, the banks are in the process of shedding customers considered too risky. That means tens of thousands of Americans will no longer be able to splurge on [Nike](#) gym shoes or flat-screen televisions unless, of course, they have enough cash to pay for them.

Still, even consumer advocates have said that the banks were too quick in the past to give out credit. “You know, it doesn’t take a rocket scientist to figure out that if you keep borrowing and borrowing in order to consume now, eventually you crash and burn,” said Martin Eakes, chief executive for the Center for Responsible Lending. “That’s what we’re facing.”

In the 12 months that ended in September, the number of [Visa](#), [MasterCard](#), [American Express](#) and Discover card accounts in the United States fell by 72 million, according to David Robertson, publisher of The Nilson Report, an industry newsletter. There are 555 million accounts still in the marketplace, he said.

In roughly the same time period, banks lowered credit limits by 26 percent, to \$3.4 trillion,

from \$4.6 trillion, according to an analysis of government data by Foresight Analytics.

Interest on credit card accounts, meanwhile, has increased to an average of 13.71 percent, up from 11.94 percent a year ago, according to federal records.

As to credit card charge-offs — industry lingo for uncollectible balances — the number tracks the unemployment rate and, therefore, is hovering at around 10 percent.

For the banks, this is uncharted territory. In the modern financing era, credit cards were long a profit center, producing tens of billions in annual profits with a default rate that hovered around 4 percent until the [recession](#).

“We know we are going to lose a lot of money next year in cards, and it could be north of \$1 billion in both the first quarter and the second quarter. And that number will probably only start coming down as you see unemployment and charge-offs come down,” [Jamie Dimon](#), chief executive of [JPMorgan Chase](#), said in an earnings call last month.

Banking officials said that because the new law limits their ability to reprice credit as a customer’s risk profile changes, they will instead have to price for future risk at the start, when a cardholder applies for a new card.

That means fewer applicants will be approved for new credit cards, and those who are accepted will increasingly be charged annual fees or variable interest rates, rather than fixed rates.

Currently, about 20 percent of credit cards charge annual fees, a percentage that is rising, said [Bill Hardekopf](#), chief executive of [LowCards.com](#). Current cardholders, too, will be affected.

Asked to explain its rate increases, Citibank issued a statement saying the “actions are necessary given the losses across the industry from customers not paying back their [loans](#) and

regulatory changes that eliminate repricing for that risk.”

Ms. Holaday Schumacher did not accept that explanation. She said she haggled with Citibank to try to get her mother’s bills forwarded to her house in Washington and, during the process, two bills were inadvertently paid late, resulting in the rate increase.

“How unbelievably unfair for an older person who might not understand what this is all about,” she said. Citibank declined to comment on the account.

Still, many of the nation’s banks are trying to repair their tarnished reputations with consumers.

American Express and Discover Financial, for instance, have vowed to stop charging fees when cardholders exceed their credit limits. JPMorgan has started a program that can help consumers categorize their spending and pay down their balances more quickly.

And [Bank of America](#) is promoting a line of consumer products so simple that the terms and conditions fit on one page. The BankAmericard Basic Visa, for instance, has no rewards and a single interest rate.

Andrew Rowe, Global Card Services strategy executive at Bank of America, said the new products represented a sea change in the bank’s attitude toward consumer products. Instead of benefiting from consumers who displayed risky behavior by penalizing them with fees, the bank is now trying to help them break those bad habits, he said.

“We succeed if our customers succeed,” he said. “That’s the paradigm shift.”

[Treasury Secretary Timothy F. Geithner](#), for one, said he would welcome consumer products that were simpler and less risky. But, he added in an interview with the [PBS](#) documentary program “[Frontline](#)”: “It’s a bit of a late conversion. It would have been nice to happen earlier.”

*Edmund L. Andrews contributed reporting.*

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