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How the Credit CARD Act Will Affect Types of Credit Cards

by Allie Johnson
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Changes abound for rewards, low interest and student cards.

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How will the CARD act affect you? That depends in part on which type of credit card you've got in your wallet.

The combined impact of the economic downturn and the restrictions placed on credit card companies by the Credit CARD Act mean card issuers will be changing how they do business in ways that will affect every credit card -- but the impact will vary depending on the type.

"I think we'll see a reverting back to the model of the 1980s -- annual fees and higher interest rates," says Dennis Moroney, research director for TowerGroup, a financial services industry research and consulting firm. "But in those days, everything was pretty plain vanilla -- there will be much more creativity now."

One by one for each of 10 types of cards, here's how experts see the CARD Act's impact:

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Bad Credit Credit Cards

The CARD Act's crackdown on extremely high fees will severely curtail the ability of issuers to offer so-called "fee harvesting" credit cards -- cards with hefty upfront fees and extremely low credit limits -- geared toward people with bad credit, experts say.

"I think the more reputable issuers, if they were issuing these cards in the past, are going to be much more reluctant to do so now," Moroney says. Issuers that do market cards geared toward consumers in the subprime market will have to strike a balance between charging enough to cover the increased risk and following the new law, according to Ken Paterson, vice president, research operations/director credit advisory service for Mercator Advisory Group, a consumer payments industry research and consulting firm. One immediate impact was the introduction of high-rate cards to replace high-fee cards: One card issuer, First Premier, experimented with. To date, no one has followed its lead.

"One of the silver linings of the CARD Act is that it has built in more protections against some of the more egregious pricing that sometimes creeps into that market," Paterson says. In the future, Moroney predicts customers with shaky credit will gravitate toward prepaid cards and secured cards.

Balance Transfer Cards

For most consumers, being able to get a balance transfer card that offers a 0 percent, 1 percent or 2 percent interest rate on a transferred balance for much more than a year will become a thing of the past.

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"Teaser rates aren't going to go away, but they're probably not going to be as lucrative for the consumer as they were -- you're going to see a higher rate and a shorter introductory term," says Jerry Straessle, president and CEO of JLS Associates, a consulting firm specializing in the credit and debit card industry. Even before the act's passage, card issuers were retreatingn from one-year introductory periods and toward the minimum of six months mandated by the CARD Act. Expect introductory rates of 7 percent to 9 percent or higher, Straessle predicts.

"The CARD Act is going to have upward pressure on rates simply because the ability to adjust rates on outstanding balances is severely limited now," Straessle says. Issuers "can't do anything about accounts that have protected balances, so they will book new accounts at higher rates of interest to make up for lost revenue from penalty fees and penalty interest."

However, there will always be issuers bucking the latest trend that make it worth shopping around. Citi, for example, just extended one of its 0 percent balance transfer card offers from a maximum of 12 months to a maxiumum of 15 months.

Business Cards

None of the provisions in the CARD Act apply to business credit cards. "So far, small business cards are unaffected by the Act -- only consumer cards were included," says Mercator's Paterson. "But it wouldn't surprise me if some of the improved disclosure that was legislated on the consumer side eventually found its way to the small business side too."

Though business owners should keep personal and business expenses separate, Paterson says the increased protections on the consumer side might push very small business owners away from business cards. "I haven't seen data evidence of this, but a one or two-person business -- a freelance programmer, artist or Web designer -- might say, 'My personal card works just fine for business purposes. I don't need a small business product.'"

Debit Cards

Debit cards have never been all that profitable for banks, but new rules on overdraft charges mean banks will make even less. Starting in July 2010, new customers will not be allowed to overdraft using their debit cards unless they opt in ahead of time. Overdraft fee income had been a big profit center for banks.

To help make up the lost revenue, many banks may start charging annual fees for debit cards, probably in the $20 to $30 range, Moroney says. Or, banks might charge for other services, such as financial planning or linking accounts to help customers avoid the embarrassment of having their card declined at a store, Robertson says.

Banks probably will get innovative; for example, providing more rewards debit cards and more hybrid credit/debit cards, as well as cards geared toward students who now cannot get credit cards because of the new law, experts say. Also, banks will reinforce responsible management of personal finances -- maybe with more programs similar to Bank of America's BAC Keep the Change, in which the bank automatically rounds up each check card purchase to the nearest dollar and transfers the difference to the

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cardholder's savings account. "We'll see more products that tap into consumer appeal," Moroney says.

Gas Cards

The CARD Act will indirectly influence the most popular type of gas card -- the co-branded card, which typically is issued by a bank in partnership with an oil company, and offers perks and rewards to the customer, experts say.

"If there's a revolving feature, it's going to be more expensive," Straessle says, noting that there has been a lot of talk in the industry about controlling costs by paring down rewards. "If you get 5 cents in fuel credits per gallon of gas now, you can probably expect in the future it's going to be a lesser amount -- maybe a penny or two pennies less," Straessle says.

Low Interest Cards

In the near future, interest rates on fixed rate low interest cards, as well as cards with low introductory rates, likely will go up several points, and issuers will be even more selective about who gets these cards, experts say.

"Low interest is a lot less desirable for most card companies because they don't have the ability to change rates as readily as they did in the past" because of the CARD Act, says Beth Robertson, director of payments research for consulting firm Javelin Strategy & Research. "So low interest cards will be more for very valuable and very creditworthy transactors -- people who carry high balances, pay regularly, have good credit scores and have a high volume of transactions, probably more than $1,000 a month. Often someone in that category is someone who travels a lot on business and is purchasing airfare, hotel rooms and meals out, but it could also be someone who is especially wealthy and is spending money on higher-ticket items."

Prepaid and Gift Cards

The Credit CARD Act imposes prepurchase disclosure of certain fees, such as inactivity fees, associated with prepaid cards -- and mandates that the cards not expire before five years. The new rules for prepaid cards -- including gift certificates, reloadable prepaid cards and gift cards -- go into effect Aug. 22, 2010.

"In the past, some expired after a year -- if you still had money on it, you lost it," Straessle says. He predicts that, to make up for this lost revenue, issuers will start charging a higher upfront fee to get a prepaid card and also a higher fee to reload the card -- as high as the market will bear. "It will depend what they think they can do competitively," he says. "It's the logical place for additional revenue to happen because there are not many revenue sources in a prepaid cards program."

Reward Cards

Rewards card issuers already have started to move away from a mass-market mentality in which the goal is to create buzz around a rewards program and get as many people as possible to apply, according to John Bartold, vice president, Loyalty Solutions for Epsilon, a marketing services firm. "Issuers already have tightened up requirements for who gets into a loyalty or rewards program," Bartold says. "The recession and the indirect impact of the CARD Act are making issuers look at these things a little differently and a little more smartly."

Credit card companies have reams of data on their customers and probably will start using that data they've collected to target their customers in a more relevant way, Bartold says. "It's not going to happen right away, but I think we're going to start seeing cards more focused for certain types of lifestyles -- where consumers can find a card that matches them rather than a generic spend-a-dollar, get-a-point," Bartold says.

Card issuers might do that by creating a general program customers can tailor to their own preferences -- similar to the Discover CardBuilder approach -- or by creating a card targeted toward a specific group of consumers such as sports fans, eco-conscious consumers or music lovers. "For example, with music and entertainment, you could have a site where customers could download music, you could have a newsletter that reviews artists by genres, you could look at sponsoring a concert," Bartold says.

Student Cards

The days of the big credit card issuers setting up tables on college campuses and offering free pizza to entice throngs of students to sign up for easy credit are over. The CARD Act prohibits that type of marketing and requires anyone under 21 to prove a source of income or have a parent co-sign to get a card.

"We probably will see fewer student cards out there because the CARD Act restricts a lot of it," says Greg Meyer, community relations manager for Meriwest Credit Union in San Jose, Calif., who predicts more issuers will offer debit and prepaid cards geared toward teens and young adults.

New student cards probably will have higher interest rates and lower credit limits and will be treated more as a vehicle for building financial responsibility, according to TowerGroup's Moroney. "They might offer little things that will reinforce responsible behavior," he says. "'You paid your bill on time this month, Bob or Sally -- let us treat you to half off your next latte at Starbucks.' Or, it could be a discount on textbooks. To a college kid, that's a big deal. They could send the merchant promotions directly to a PDA with a bar code and the student could spend it immediately."