

## Turning point for credit cards

The industry just got a second slap in the face over credit cards—this one from Congress. The new legislation imposes all sorts of restrictions regarding pricing, rates, and practices, much of it already covered by the rules issued by the Federal Reserve late last year. It looks like Congress and the Administration wanted to get credit for helping consumers on an issue that has been fanned to red hot by media attention and consumer activists.

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As a result, credit cards may be less desirable to issuers and may not be nearly so available to consumers as they have been.

We have little sympathy, however, for the card issuers whose practices brought on this rebuke. As we've stated here before, people have, or should have, a responsibility for how they use a financial product—as in paying on time, not spending more than they can afford, etc. And issuers have to cover the risks inherent in extending unsecured credit. But things went off the reservation in card-land, and now we have the payback.

The point here isn't to wag a finger at anyone, especially after the fact. Rather, it's to point out that there is an opportunity in this setback to rethink what people want and need, and to provide new services profitably. Credit cards, we're sure, won't disappear, but there may be real opportunities in alternatives to the traditional credit card, and, more broadly, from the ongoing shift in the mindset of consumers toward credit in general.

Some alternatives are well established. Debit cards, of course, are one. They are enormously popular with consumers and profitable for banks. (There is vulnerability here, however, should Congress resurface the interchange price control bill that ABA has helped fend off, so far.)

Another alternative is actually an old standby, the "T&E" card. American Express has had an headlock on that business for decades, but there's no reason more banks can't come up with "pay in full" cards that do something similar, working with Amex, Visa, MasterCard, or whomever. Consumers may now appreciate the card-imposed discipline of the format more than ever. Other possibilities: stored-value cards, or, moving away from plastic altogether, mobile payments.

The shift in mindset has occurred over the past year as consumers (and many businesses) began to think that taking on more debt was not such a good idea, and that, in fact, saving money seems pretty smart (see chart).

That shift further reinforces the appeal of non-credit and non-revolving payment products. It also opens up possibilities for savings products, such as, believe it or not, passbooks (see p. 26).

So, yes, credit cards have lost some appeal. But that may not be such a bad thing for either banks or their customers.

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