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Credit card issuers redouble efforts to woo most creditworthy

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By Alexis Leondis and Peter Eichenbaum
BLOOMBERG NEWS

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Walt Serafin, a manager for a biotechnology company in Kansas City, is getting an iPhone as a reward from American Express Co.

That's not what U.S. card issuers and their lobbyists predicted could happen when they opposed legislation limiting abrupt contract changes such as interest rate increases. The American Bankers Association, said the law would penalize cardholders with high credit scores, making them subsidize losses from lower-scoring consumers.

The bill was passed by Congress and signed by President Barack Obama in May. Most of its provisions go into effect Monday.

Instead of being punished, Serafin and others with credit scores above 750 continue to receive rewards and promotional offers as banks battle to retain premium customers, said Ben Woolsey, director of marketing and consumer research at Austin-based CreditCards.com, an online resource for cardholders.

"These are the customers the banks are vying for," Woolsey said. "They've come through unscathed."

Credit card write-offs, or loans deemed uncollectible, jumped \$89 billion last year from \$56 billion a year earlier, according to R.K. Hammer Investment Bankers, an adviser to card issuers. Banks could lose \$5.5 billion in interest income because of the legislation this year and \$11 billion in 2011, according to R.K. Hammer.

Lenders need to find ways to make up the lost income, but they won't reduce affluent cardholders' "precious" rewards, said Samir Kothari, co-founder of BillShrink.com, a company in Redwood City, Calif., that compares pricing and terms offered to consumers for about 170 credit cards.

The growing competition for wealthy consumers with the best scores is "the final frontier in the credit card business," said Curtis Arnold, founder of CardRatings.com in North Little Rock, Ark.

The Credit Card Accountability, Responsibility and Disclosure Act "is leading all issuers to the top of the credit food chain, and more competition is never a good thing in any industry... but particularly in the relatively homogenized card space," said Jason Arnold, an analyst with RBC Capital Markets in San Francisco.

The competition may squeeze profit at American Express, which dominates the market for affluent users. Purchases by the company's cardholders averaged \$9,342 in 2008 compared with \$2,672 for Visa Inc. and \$2,300 for MasterCard Inc., AmEx said in a presentation for analysts this month, and its cardholders have average credit scores of 754, compared with 722 for the rest of the industry.

AmEx is performing well because it targets consumers with high credit scores who spend a lot, said Scott Valentin, an analyst with FBR Capital Markets in Arlington, Va. These users are most profitable for issuers because they're less likely to default on loans and more likely to spend, generating fees charged to merchants to process sales, Valentin said.

Card issuers "are trying to get more juice from the same orange," said Chris McWilton, president of U.S. markets for MasterCard. "They are contracting and condensing their business into the most profitable segment."

Serafin, the biotech manager, said he uses AmEx for 90 percent of his card purchases. He spent 38,000 reward points instead of the usual 60,000 points for the iPhone because of a holiday discount.

"If AmEx cuts my rewards, I'll stop using the card," said Serafin, 58, who has a credit score of 771, according to Credit-

Karma.com, a Web site that gives free credit scores.

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