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Merchant-Set Minimums May Alter Payment Picks

BY KATE FITZGERALD

Retailers gained more leeway in controlling their payments under the recent debit interchange regulation, but whether they can put this into practice without irking their customers is a separate issue.

About one in five consumers said they would stop frequenting merchants that refuse to accept their credit cards for small payments, according to survey data from Market Strategies International.

A provision within the Durbin amendment to the Dodd-Frank Act allows merchants to set up to a \$10 minimum for credit card transactions and to offer consumers discounts for using cheaper forms of payment.

The payment networks have traditionally prohibited merchants from setting minimums.

Of the 2,006 adults 21 and older that Market Strategies surveyed online from Sept. 23 to 29, 46% said they would pay with cash if a merchant refused to accept their credit card for a small-ticket purchase.

Twenty-eight percent said they would use their debit card instead; 21% said they would stop shopping at that merchant's store, and 4% said they would add something else to their purchase to increase the sale to more than \$10.

"It is unlikely that a busy merchant is going to refuse to accept a lot of consumers' cards, but if merchants make any significant changes in their card-acceptance policies, it is safe to say it will be a confusing couple of years for consumers," said Mark Willard, the senior vice president of the Livonia, Mich., research firm's financial services division.

Card issuers in recent years "have done a good job in blurring the lines between credit and debit cards so that consumers think



Confusion: The line between debit and credit has blurred, Willard says.

they can pay for anything, for any amount, with plastic," Willard said.

Many consumers also are disenchanted with the credit card industry.

Twenty-seven percent of respondents said they were planning within the next six months to stop using their primary credit card, and 18% planned to make a different card their primary card.

About 16% planned either to switch to a different credit card or to sign up for a new one.

Negative perceptions of credit card companies remain high despite some recent improvement, the survey said.

Most respondents, 69%, rated their perception of credit card companies as negative, compared to 74% in March and 71% in March 2009.

Some 38% of respondents said they had used their credit card less in the previous six months; 19% said their credit card use increased, and 43% said it remained the same.

Reasons given for using their credit cards less included economic concerns (58%), an income change (48%), changes in cards' interest rates (18%), changes in their own net worth (11%), general "cutting back" (8%) and a decrease in their credit limit (7%).

Baby boomers were most likely to have reduced credit card use within the previous six months, the data suggested.

Forty-five percent of respondents 45 to 62 years old said they had used their credit cards less; 36% of those 21 to 29 said so, as did 31%, each, of respondents 30 to 44 and those 63 and older.

One-third of consumers surveyed were unaware of the Credit

Card Accountability Responsibility and Disclosure Act, which limits issuers' ability to raise interest rates and charge certain fees. Sixty-seven percent of respondents said they had heard of the regulations, most of which took effect in February.

Of those aware of the regulation, 43% said they expected "no changes" to result from it; 23% said they were "waiting for a credit card company announcement"; 16% planned to use their credit card less often, and the remainder were not sure.

The Credit CARD Act requires issuers to give cardholders at least 45 days' notice of changes in fees or interest rates, other than those that are promotional or tied to a variable index. It also prohibits issuers from increasing cardholders' interest rates unless the minimum monthly payment is more than 60 days late, and it requires payments to be applied first toward credit card debt with the highest interest rate.

More consumers applied for credit cards in the recent survey than did earlier this year, but the share of those turned down also rose.

More than twice as many respondents had applied for a credit card during the third quarter, compared to the 7% who did so in the first quarter. But issuers turned down 34% of these third-quarter applicants, compared to 31% rejected in the first quarter.

Cash use for routine purchases continued to decline, particularly among the youngest group of respondents. About 34% of those 21 to 29 said they had curtailed their use of cash compared to a year earlier; 24% increased their cash use, and 42% reported no change. Among respondents 30 to 34 years old, 30% decreased their cash use; 23% increased it, and 47% noted no change.

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