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## Consumers Stash Credit Cards

September 10, 2010

By **Sandra Block**

Americans have sharply reduced their use of credit cards, and some analysts believe the trend will continue even after the economy has fully recovered.

The Federal Reserve Board reported this week that credit card borrowing fell at a 6.3% annual rate in July. The last time borrowing with credit cards increased was in August 2008.

Separately, a survey by Javelin Strategy & Research found that 56% of consumers used credit cards in 2009, down from 87% in 2007. Credit card usage could fall as low as 45% this year, the report said.



Reasons for the decline:

\*Economic uncertainty. "People are being extraordinarily cautious because of concerns about a double-dip recession, and jobs not being returned," says Javelin President James Van Dyke. Consumers are opting for debit cards, because they're "one of those mechanisms that allows you to spend what you have," says Martha Doran, an accounting professor at San Diego State University.

\*Less available credit. To reduce their risks, lenders have slashed consumers' credit limits, in some cases by as much as 90%, says Robert Livingstone, president of IdealCost.com, a consulting firm based in West Palm Beach, Fla. Under a provision in the credit card reform bill, most college students can't get a credit card without a co-signer.

\*Incentives to use debit over credit. Some cash-strapped businesses, unwilling to pay transaction fees associated with credit cards, are giving consumers incentives to pay with a debit card or cash. Livingstone says he received a 7% discount on his wife's engagement ring by paying with a check rather than a credit card.

\*A generational shift. Young consumers who are accustomed to having up-to-date information at their fingertips don't want to wait 30 days to see how a credit card purchase will affect their bank account, Van

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Dyke says. "Younger people have an inherent preference for real-time payment methods like debit," he says.

In 2009, payment volume for debit cards exceeded credit cards for the first time, a trend that's expected to continue in 2010, Javelin says.

Many banks are responding to the trend by adding rewards programs and other features to their debit cards, says Ken Lin, chief executive of Credit Karma, a website that provides free credit scores. Banks "realize the new cash cow is going to be on the debit side of the business," he says.

The American Bankers Association says it's too soon to determine whether the trend will continue after the economy has recovered. "Consumers are clearly reacting to an uncertain economy right now, so it is unclear what they will do in the future when it comes to choosing between debit and credit card use," says Kenneth Clayton, ABA senior vice president and general counsel.

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