Credit Card Companies Evolving Revenue Streams: Penalty for Paying on Time, 79.9% Annual Fee, Rising Charge Offs. The New Credit Card Revenue Streams.

The love hate relationship with credit cards for many Americans is probably leaning more in the hate stage at the moment. Americans have over $2 trillion in revolving debt - $1 trillion of that is plastic. The average American has come to rely on credit cards as a form of supplemental income, like retirees come to rely on Social Security. You would assume with the Federal Reserve flooding banks with easy money that credit card terms would ease up on consumers. They have not. If anything, terms have gotten more onerous in the last year. Credit card companies are battling with increasing default rates and trying to figure out how to maximize profits. As it turns out, they now have to cannibalize their good customers for their horrid lending practices during the debt bubble.

Take for example a report that NBC San Diego did. They found a credit card that was offering a 79.9% annual rate. Not bad enough? They also charge an annual fee:

Source: The Consumerist

Even the recent historic equities rally is in the 60 percent range. Yet these are common tactics. Some more troubling trends are going after customers that pay their bills on time:

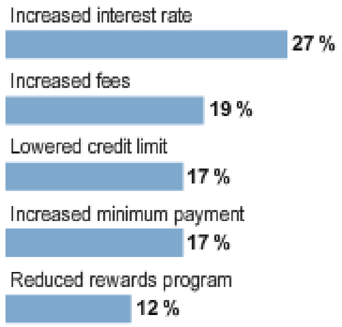
"(USA Today) You floss regularly, yield to oncoming traffic and use your credit cards judiciously, dutifully paying off your balance every month.

You may believe that your exemplary behavior shields you from unexpected credit card fees. Sadly, that is no longer the case.

Starting next year, Bank of America will charge a small number of customers an annual fee, ranging from $29 to $99. The bank has characterized the fee as experimental. **But card holders who have never carried a balance or paid late fees could be among those affected.**"

To show you how rampant this is, take a look at changes customers are seeing to their credit cards over the last few months even though the Fed and U.S. Treasury have rescued many of these companies:

Forty-five percent of consumers said their credit card issuer has made one or more of the following changes to their account, up from 33% in June:



Source: Credit.comâ€™s national telephone poll, conducted by GfK Custom Research North America Oct. 10-11. Margin of error is +/- 3 percentage points.

Much of this is coming in a hurry trying to beat the 2010 new credit card legislation that will make it harder for credit card companies to milk consumers like nationwide loan sharks. At this point, they can't squeeze blood out of a turnip or break kneecaps so they are now going after good paying customers since it would seem they are the only folks with money left. Even if you pay off your balance every month, you can expect some credit card companies to start charging an annual fee just for having the account. I would imagine that many accounts that have been open with no usage will also be shut down or have their lines decreased. This has occurred personally to me and I can verify the rate increases as well (nothing like 79.9% however).

So why is this happening right now aside from the legislation? Credit card companies are bleeding money. Let us look at Capital One and Discover:

Capital One - 8-K Oct 20009

(Dollars in thousands)	Q2 2009	Q1 2009	Q4 2008	Q3 2008
Earnings (Managed Basis) (1)				
Net interest income	$ 1,797,303	$ 1,691,688	$ 1,816,484	$ 1,862,034
Non-interest income	897,440	985,481	1,138,220	1,181,015
Total revenue	2,694,743	2,677,169	2,954,704	3,043,049
Provision for loan and lease losses	1,520,292	1,682,786	2,164,529	1,434,435
Non-interest expense	909,572	988,652	1,075,446	1,059,641
Income (loss) before taxes	264,879	5,731	(285,271)	548,973
Income taxes (benefit)	92,251	2,402	(98,053)	192,461
Net income (loss)	$ 172,628	$ 3,329	$ (187,218)	$ 356,512
Selected Metrics (Managed Basis) (1)				
Period end loans held for investment	$ 73,398,569	$ 75,085,127	$ 79,665,223	$ 79,616,456
Average loans held for investment	$ 74,190,428	$ 77,570,383	$ 79,084,262	$ 79,285,212
Loans held for investment yield	12.31%	11.51%	12.56%	13.20%
Revenue margin for domestic cards	14.46%	13.81%	15.09%	15.42%
Revenue margin for international cards	15.06%	13.77%	13.87%	14.91%
Net charge off rate	9.24%	8.27%	6.93%	6.10%
30+day delinquency rate	4.99%	5.20%	4.86%	4.34%
Purchase volume (3)	$ 25,746,799	$ 23,473,560	$ 27,564,750	$ 29,394,045

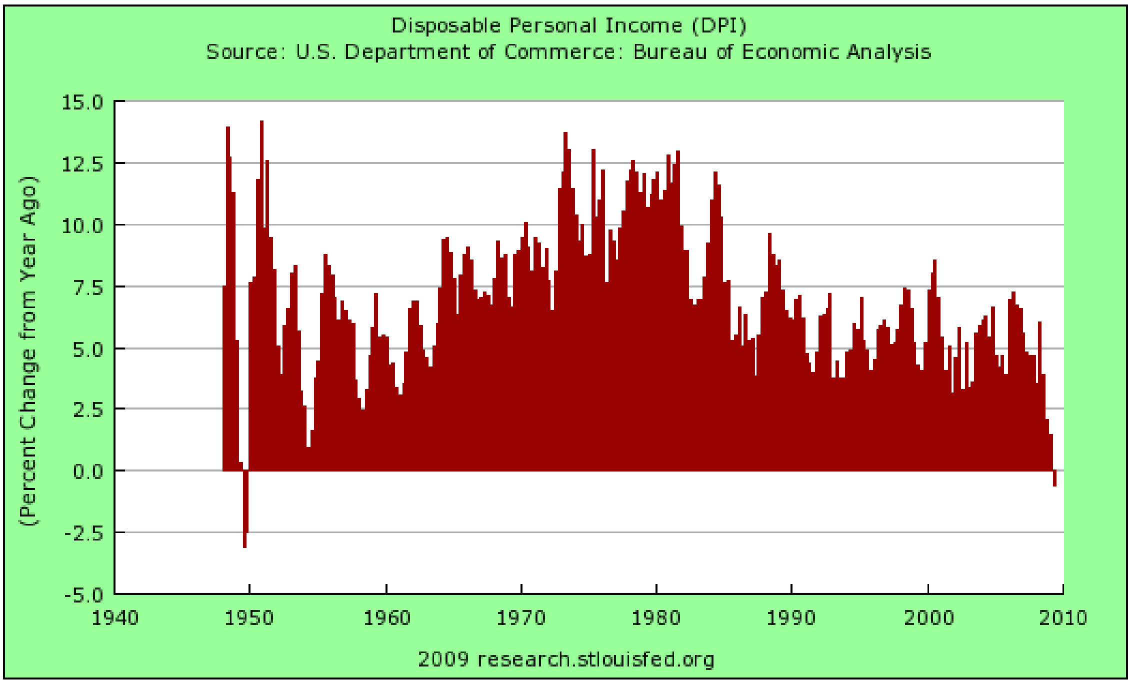
The current net charge off rate for Capital One is **9.24%.** An astounding number that puts it into a historical level. This is up from the 6.1% of last year. A 30 percent increase in charge offs will hurt your bottom line. The average American is dealing with the realities of the recession and many have simply stopped paying. Others have gone through bankruptcy and credit card debt is wiped away during bankruptcy.

Discover is also seeing a similar trend:

Discover Charge off rate	Quarter ending 8/31/09	Quarter ending 5/31/09	Quarter end 8/31/08
Interest Yield	12.10%	11.54%	11.41%
Net Principal Charge-off Rate	8.05%	7.53%	4.76%
Delinquency Rate (over 30 days	4.86%	4.87%	3.58%
Delinquency Rate (over 90 days	2.46%	2.60%	1.73%

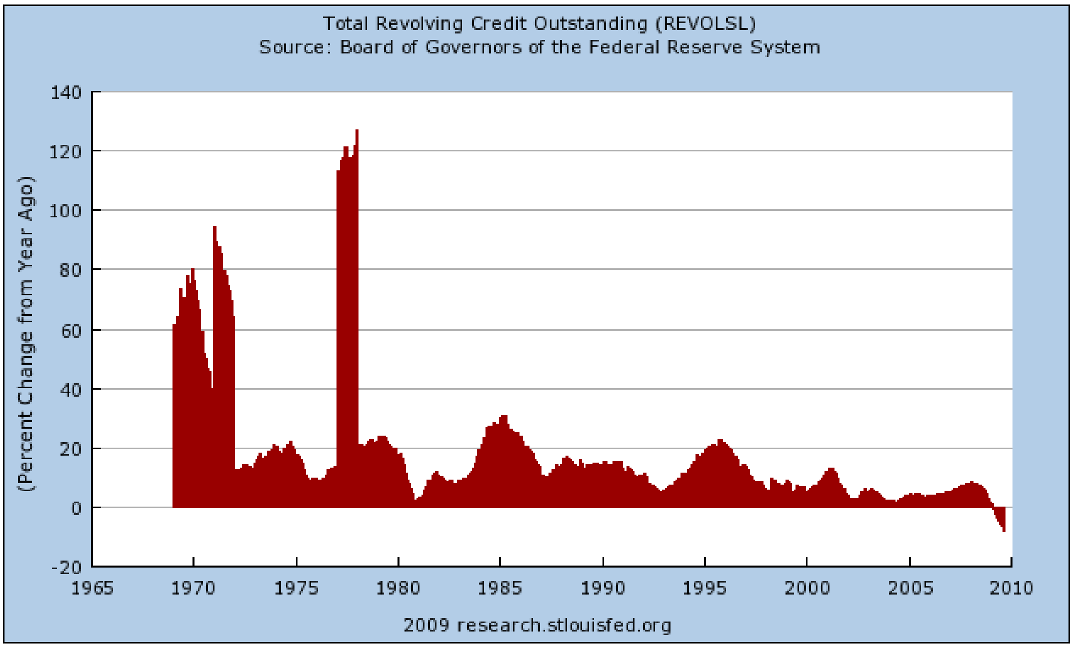
I think you get an understanding of why credit card companies are starting to look at "innovative" ways to raise revenue. So much for asking "what's in your wallet?"

Yet why are Americans having such a hard time paying their debts? In a few words, people have less money. For the first time in 60 years has disposable income fallen on a year over year basis into negative territory:



Now think of all the recession since the 1950s. Not once did we see a negative year, until now that is. So with the deep recession, many are unable to keep the debt musical chairs going any longer. The trend of paying one credit card with another is coming to an end. How many 0 percent 12 month balance transfer offers have you seen in 2009? I used to get about 5 of these a week during the debt boom. Now? Zero.

This isn't just anecdotal. The credit card industry has yanked over 10 million credit cards from the market and overall revolving debt is declining:



The trouble here is that revolving debt has fallen while disposable income has also fallen. Since Americans have relied on credit cards so heavily, this is being felt in profound ways. The credit card companies are getting a chance to remedy their balance sheets on the back of consumers. The U.S. Treasury and Federal Reserve have extended what seems to be unlimited life lines to these companies, paid by the taxpayers, yet these companies are doing nothing to help the overall average American.

At a certain point people will wake up and realize that there is a war going on in our country in the financial world. A battle that threatens the financial security of millions. In fact, it may be the biggest battle we face. Yet many Americans seem okay with this or have become apathetic to the new financial serfdom. Why take to the streets for a few million bonus when we have trillions of dollars being yanked by our own government and Wall Street? We need to channel our energy to where the real money is at. Wall Street and the government are all too happy to slap a few hands with mid-level players while the top rung keeps on sucking the American taxpayer dry.