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Characteristics of consumers targeted and neglected by credit card companies

Amdetsion Kidane, Sandip Mukherji*

School of Business, Howard University, 2600 6th Street, NW, Washington, DC 20059, USA

Abstract

This study identifies the primary characteristics of consumers who are targeted and those who are neglected in mail solicitations by credit card companies. We find that credit card companies target consumers who do not have recent payment difficulties and credit damage, and have strong financial resources, substantial and responsible credit use, and established credit history. They neglect consumers who have recent payment difficulties and credit damage, weak financial resources, little or no credit use, and scant credit history. These results show that, contrary to speculation by some researchers, credit card companies target more credit-worthy consumers and neglect less credit-worthy ones. © 2004 Academy of Financial Services. All rights reserved.

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1. Introduction

Ownership of credit cards and use of their credit feature have risen substantially in recent decades. Surveys of Consumer Finances by the Board of Governors of the Federal Reserve System reveal that the percentage of U.S. families with at least one credit card increased from 51% in 1970 to 76% in 2001 (Durkin, 2000; Aizcorbe, Kennickell, and Moore, 2003). In 2001, the average credit-card holding household had six bank credit cards and a total credit card balance of $8,347.[1] Aggressive marketing by credit card companies has fueled the proliferation of credit cards. A record 5 billion credit card solicitations were mailed in 2001.

* Corresponding author. Tel.: +1-202-806-1591; fax: +1-202-797-6393.
E-mail address: smukherji@howard.edu (S. Mukherji).

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The widespread use of credit cards has raised concerns “whether consumers fully understand the costs and implications of using credit cards” and “whether credit cards have encouraged widespread overindebtedness, particularly among those least able to pay” (Durkin, 2000, p. 623). These concerns are reflected in the finding of a survey sponsored by the Credit Research Center that “holders of bank-type credit cards in 2000 believe that too much credit is available, that consumers are confused about some practices, and that credit users have difficulty getting out of debt” (Durkin, 2000, p. 628).

Some studies show that credit card companies have taken greater risk and earned higher returns than non-credit card banks (Sinkey and Nash, 1993; Nash and Sinkey, 1997). Others demonstrate that bankruptcy filings are directly related to credit card debt (Domowitz and Sartain, 1999; Stavins, 2000). In the light of aggressive marketing by credit card companies and consumer concerns about credit card debt, evidence that credit card companies take greater risk and credit card debt is associated with bankruptcy filings raises the question whether credit card companies deliberately target risky customers.

The purpose of this study is to examine whether credit card companies are targeting high-risk consumers and neglecting credit-worthy ones. The findings will throw light on the practices of credit card companies and reveal the consumer attributes that these companies find desirable or undesirable. The results will have practical relevance for evaluation of the credit card industry’s policies and also indicate the consumer characteristics that are attractive or unattractive to a major financial services industry.

2. Literature review

Surveys of Consumer Finances by the Board of Governors of the Federal Reserve System show that high-income families are more likely to have bank-type credit cards, but low-income families are more likely to use them as a credit device. Between 1970 and 1998, the percentage of families that had a credit card increased from 2 to 28% for the lowest-income quintile, while it surged from 33–95% for the highest-income quintile. During this period, the percentage of card-holding families that carried a balance rose sharply from 27–59% in the low-income group, and grew more modestly from 30–45% in the high-income group.

Mail solicitations are the most common marketing tool of credit card companies. While the volume of mail solicitations has soared, the consumer response rate dropped to an all-time low of 0.5% in 2001. Several factors, such as increasing competition, industry consolidation, higher mailing charges, and internet marketing are generating pressure for more effective mail solicitations (Fitzgerald, 2000). A survey by Auriemma Consulting Group in 2000 finds that consumers open only about 27% of the solicitations. High-income families receive more solicitations but low-income families are more likely to open the solicitations received. According to a consumer advocate cited by Womack (1998, p. 4–5), “too many credit card issuers are mailing solicitations to people who are high-risk to begin with and consumers who can least afford credit cards usually take the bait.”

Black and Morgan (1999) report that credit cardholders became more risky between 1989 and 1995, when they were poorer, more likely to rent their home, and had larger credit card

balances as well as higher debt-income ratios. During this period the median family income of credit cardholders fell from $43,000 to $38,000 whereas the average credit card balance of households rose from $1,100 to $1,700 in terms of 1995 dollars.

Bird, Hagstrom, and Wild (1999) find that during 1983 through 1995 the proportion of lowest-income families with at least one credit card more than doubled and their average credit card balance almost doubled. In this period the proportion of highest-income families with at least one credit card rose by only 9%, primarily because almost all of them already had a card in 1983. Stavins (2000, p. 18) observes that "all these changes could simply indicate more equal access to credit by poorer households."

There is evidence that credit card companies have taken greater risk to earn abnormal returns. Sinkey and Nash (1993) show that in 1984 through 1991 the pre-tax return on assets was 3.36% for credit card companies, compared to 0.95% for non-credit card banks. However, credit card banks were riskier, with greater variability of return on assets and higher probability of insolvency than other commercial banks. Nash and Sinkey (1997) report that during 1989 through 1995 credit card banks earned significantly higher returns on assets, but these returns were associated with greater risk-taking compared to non-credit card banks.

Stavins (2000) finds that households that filed for bankruptcy had larger credit card balances and higher ratios of credit card debt to income than those that never filed for bankruptcy. In addition, regions with high ratios of credit card debt to income tend to have high bankruptcy filing rates. The author observes that "many blame lenders for the increase in credit card default rates, as they extend credit to higher-risk individuals. Their liberal lending standards may have induced cardholders to borrow more than they could afford, raising default rates" (p. 17). Domowitz and Sartain (1999) indicate that the ratio of credit card debt to income is the largest contribution to bankruptcy at the margin.

Since the existing literature indicates that most high-income families already have credit cards and are less likely to use their credit feature, credit card companies might be tempted to target riskier low-income families. As the volume of mail solicitations has surged, the consumer response rate has shrunk, generating pressure for more effective solicitations. Low-income families, which are more likely to open the solicitations received, present an attractive target. There is evidence that the ownership and use of credit cards by low-income families has increased and credit card holders have become more risky. It has also been shown that credit card companies have taken greater risk to earn abnormal returns and credit card debt is related to bankruptcy filings.

Responsible financial institutions are not expected to follow a deliberate policy of targeting high-risk consumers who are more likely to default on credit obligations, undermining the financial system. At the same time, responsive financial institutions should make credit available to all qualified consumers. Noting the increased use of credit cards by higher-risk consumers, some researchers have speculated that card companies might be targeting such consumers. An alternative explanation for the observed trend, however, is greater access to credit by poorer households. There is no direct evidence on the attributes of consumers who are targeted and neglected by credit card companies.

Table 1
Hypothesized attributes of targeted and neglected consumers

	Targeted consumers	Neglected consumers
A: Financial resources		
Combined total before-tax income	High	Low
Combined financial net worth	High	Low
Home ownership	Own	Rent
B: Credit history		
Auto loan	Yes	No
Home equity loan/line of credit	Yes	No
Other installment loans	Yes	No
C: Credit use		
Combined total non-mortgage loan balances	High	Low
Payment of combined monthly credit card bills	"Lot" > minimum	Full amount/no bill
D: Payment difficulties		
>30 Days late paying a bill	Never	Last 2 years
Check returned for insufficient funds	Never	Last 2 years
"Hard time" paying bills on time	Never	Last 2 years
E: Credit damage		
Late payment call/letter from creditor	Never	Last 2 years
Contact by collection agency	Never	Last 2 years
Turned down for loan/credit card	Never	Last 2 years

3. Hypotheses tested

The objective of this study is to identify the attributes of consumers who are targeted and those who are neglected in mail solicitations by credit card companies. For this purpose, we test for significant differences between the proportions of targeted and neglected consumers with various attributes. The hypothesized attributes of the two groups are listed in Table 1. The individual consumer attributes are grouped under broad characteristics for analytical purposes. In cases where the targeted or neglected proportion is expected to be significantly higher, based on the assumption that credit card companies target the most credit-worthy consumers and neglect the least credit-worthy ones, the null hypothesis is one-sided. For example, because card companies are expected to target high-income consumers, the null hypothesis for this attribute, which is expected to be rejected, is that the proportion of targeted consumers is less than or equal to the proportion of neglected consumers. In each case, the alternative hypothesis reflects our expectation.

We expect credit card companies to target consumers with greater financial resources, indicated by high income and net worth, and home ownership, and neglect those who rent their homes or have other indicators of low financial resources. In the case of binary attributes, we hypothesize a higher proportion for targeted consumers in one category and for neglected consumers in the other category. For example, we expect a larger proportion of targeted consumers to own homes and a higher proportion of neglected consumers to rent homes. Where attributes have three categories, we hypothesize significant differences only for the top and bottom categories. For example, we expect a greater proportion of targeted consumers to have high income and a larger proportion of neglected consumers to have low

income. Because we do not have any a priori hypothesis regarding the middle category—medium income in this case—the null hypothesis is that there is no significant difference between the proportions of targeted and neglected consumers in this category. However, if the results show a significant difference for any of the middle categories, it would indicate that credit card companies use that attribute to target or neglect consumers, depending on whether the test statistic is positive or negative.

We expect card companies to target consumers who have established credit histories through auto loans, home equity loans/lines of credit, and other installment loans, and neglect those who do not have such loans. Card companies are also expected to target consumers who use credit, carrying high loan balances,[2] and use it responsibly, paying a lot more than the minimum amount due on their credit cards. They are expected to neglect those who have low loan balances and pay the full amount of their credit card bills or do not have any credit card bill, because such customers generally do not use credit.

We expect credit card companies to target consumers who have never had payment difficulties, such as having a check returned because of insufficient funds, paying a bill more than 30 days late, and having a hard time paying bills. Card companies are also expected to target consumers who never suffered any credit damage, such as a late payment call or letter from a creditor, contact by a collection agency, and being turned down for a loan or credit card. We expect card companies to neglect those who experienced such payment difficulties or credit damage in the last two years.

If the findings support our expectations, it would indicate that credit card companies target more credit-worthy consumers and neglect less credit-worthy ones.

4. Data and methodology

The data are obtained from a Consumer Credit Survey conducted by Freddie Mac in collaboration with several universities in 1999.[3] The target population for the survey comprised people between the ages of 20 and 40 with household incomes below $75,000. Out of 23,000 questionnaires that were mailed out, 12,140 (53%) were returned.

We classify the sample proportions based on the number of credit card mail solicitations received and each individual attribute. Those who received more than five credit card mail solicitations in the past month are categorized as targeted consumers and those who got zero to two solicitations are the neglected consumers. We test whether the proportion of targeted consumers is less than or equal to, equal to, or greater than or equal to the proportion of neglected consumers for different attributes, as hypothesized in Table 1.

Significant differences between the proportions of targeted and neglected consumers are determined by tests for the difference between two population proportions for large samples. The test statistic is:

$$z = (p_t - p_n)/[p_c(1 - p_c)(n_t + n_n)/(n_t n_n)]^{1/2} \quad (1)$$

where: p_t is the proportion of targeted consumers,

p_n is the proportion of neglected consumers,
p_c is the common proportion of targeted and neglected consumers:

$$p_c = (n_t p_t + n_n p_n)/(n_t + n_n) \tag{2}$$

n_t is the total number of targeted consumers, and
n_n is the total number of neglected consumers.

We conduct a separate test for each category within each attribute, implying three separate tests for attributes that have three categories. For example, as shown in Table 1, we test the null hypotheses that the proportion of high-income targeted consumers is less than or equal to the proportion of high-income neglected consumers, the proportion of medium-income targeted consumers is equal to the proportion of medium-income neglected consumers, and the proportion of low-income targeted consumers is greater than or equal to the proportion of low-income neglected consumers.

For a particular attribute, rejection of the null hypothesis that the proportion of targeted consumers is less than or equal to the proportion of neglected consumers indicates that credit card companies use that attribute to target consumers. Similarly, rejection of the null hypothesis that the proportion of targeted consumers is greater than or equal to the proportion of neglected consumers for an attribute suggests that card companies neglect consumers with that attribute.

5. Sample profile

The composition of the sample for different attributes is shown in Table 2. The large volume of solicitations mailed by credit card companies is reflected in our sample. The number of mail solicitations received in the past month was three to five for 39%, and more than five for 39%, of the sample. Only 21% got zero to two solicitations; of these, just 5% did not get any solicitation.

The financial resource characteristics indicate that the combined before-tax total income of the respondents and their spouses was $25,000 to 44,999 for 35%, and more than $44,999 for 35% of the sample. The combined financial net worth was more than $49,999 for 44% and $10,000 to 49,999 for 32% of the sample. The proportions of homeowners and renters were more or less equal.

While 49% of the survey respondents or their spouses had an auto loan, only 18% had a home equity loan or line of credit and 25% had other installment loans. The total amount owed on all non-mortgage loans was more than $49,999 for 38% and $10,000 to 49,999 for 36% of the sample. As many as 43% of the respondents and their spouses paid less than, or "little more than," the minimum amount payable on their monthly credit card bill, while 23% paid a "lot more" than the minimum, but not the full amount. Therefore, almost two-thirds of the respondents were carrying credit card balances and two-thirds of those carrying balances were making small monthly payments.

Most of the respondents had experienced payment difficulties in the past. In the last two years, 34% had a check returned for insufficient funds, 41% were more than 30 days late

Table 2
Credit card mail solicitations: Sample profile

	Number of responses	0–2	3–5	>5
A: Number of mail solicitations in a month	12,003	21.44%	39.34%	39.22%
B: Financial resources		<$25,000	$25,000–44,999	>$44,999
Combined total before-tax income	11,754	29.51%	35.27%	35.21%
Combined financial net worth		<$10,000	$10,000–49,999	>$49,999
	11,320	23.67%	32.49%	43.83%
		Own	Rent	
Home ownership	11,706	49.08%	50.92%	
C: Credit history				
		Yes	No	
Auto loan	11,543	48.70%	51.30%	
Home equity loan/ line of credit	11,313	17.73%	82.27%	
Other installment loans	11,388	24.62%	75.38%	
D: Credit use				
		<$10,000	$10,000–49,999	>$49,999
Combined total non-mortgage loan balances	11,355	26.05%	36.12%	37.83%
		Full amount/no bill	“Lot” >minimum	<To “little” >minimum
Payment of combined monthly credit card bills	11,689	34.39%	22.86%	42.75%
E: Payment difficulty				
		Never	>2 years ago	Last 2 years
Check returned for insufficient fund	11,858	39.15%	26.69%	34.16%
>30 Days late paying a bill	11,859	39.01%	20.47%	40.52%
“Hard time” paying bills on time	11,879	29.71%	23.63%	46.66%
F: Credit damage				
		Never	>2 years ago	Last 2 years
Late payment Call/letter from creditor	11,871	35.94%	19.47%	44.60%
Contact by collection agency	11,859	40.32%	22.87%	36.82%
Turned down for loan/credit card	11,828	30.73%	19.07%	50.19%

Table 3
Financial resources of consumers targeted/neglected in credit card mail solicitations

	Targeted consumers	Neglected consumers	Difference	Z-stat
Combined total before-tax income				
>$44,999	44.15%	22.60%	21.55%****	18.05
$25,000–44,999	34.65%	33.63%	1.02%	0.87
<$25,000	21.20%	43.77%	−22.57%****	−20.03
Combined financial net worth				
>$49,999	51.51%	30.48%	21.03%****	16.73
$10,000–49,999	29.14%	36.21%	−7.07%****	−6.01
<$10,000	19.35%	33.31%	−13.96%****	−12.87
Home ownership				
Own	59.87%	35.06%	24.81%****	19.94
Rent	40.13%	64.94%	−24.81%****	−19.94

** Significant at 5% level.
**** Significant at 1% level.

paying a bill, and 47% had a "hard time" paying bills on time. In addition, 27% had a check returned for insufficient funds, 20% were more than 30 days late paying a bill, and 24% had a "hard time" paying bills on time, more than two years ago.

Most of the respondents had also suffered credit damage in the past. In the last two years, 45% received a late payment call or letter from a creditor, 37% were contacted by a collection agency for a late payment, and 50% were turned down for a loan or credit card. Further, 19% received a late payment call or letter from a creditor, 23% were contacted by a collection agency and 19% were turned down for a loan or credit card, more than two years ago.

6. Results

The significant attributes of consumers who are targeted and those who are neglected by credit card companies are identified in Tables 3 through 5 and the primary characteristics of these groups are presented in Tables 6 and 7.

Table 3 shows that the targeted group has significantly higher proportions of consumers with combined total before-tax income above $44,999 and financial net worth exceeding $49,999, while the neglected group has greater proportions of consumers with income below $25,000 and net worth under $49,999. In addition, the targeted group has a larger proportion of homeowners and the neglected group has a higher proportion of renters. These results indicate that mail solicitations by credit card companies target consumers with stronger financial resources and neglect those with weaker financial resources.

In Table 4, panel A demonstrates that the targeted group has greater proportions of consumers who have auto loans, home equity loans/lines of credit and other installment loans whereas the neglected group has higher proportions of consumers who do not have such loans. These findings show that credit card companies target consumers with established

Table 4
Credit history and credit use of consumers targeted/neglected in credit card mail solicitations

	Targeted consumers	Neglected consumers	Difference	Z-stat
A: Credit history				
Auto loan				
Yes	54.09%	39.03%	15.06%****	12.03
No	45.91%	60.97%**	−15.06%****	−12.03
Home equity loan/line of credit				
Yes	22.13%	11.79%	10.34%****	10.51
No	77.87%	88.21%	−10.34%****	−10.51
Other installment loans				
Yes	26.01%	20.95%	5.06%****	4.68
No	73.99%	79.05%	−5.06%****	−4.68
B: Credit use				
Combined total non-mortgage loan balances				
>$49,999	43.29%	29.20%	14.09%****	11.45
$10,000–49,999	35.53%	35.27%	0.26%	0.21
<$10,000	21.18%	35.52%	−14.34%****	−12.90
Payment of combined monthly credit card bills				
"Lot" >minimum	27.90%	15.93%	11.97%****	11.31
< to "Little" > minimum	40.02%	42.28%	−2.26%	−1.84
Full amount/no bill	32.08%	41.79%	−9.71%****	−8.16

** Significant at 5% level.
**** Significant at 1% level.

credit histories and neglect those who do not have existing loans. Panel B indicates that the targeted group has a larger proportion with combined total non-mortgage loan balances exceeding $49,999, while the neglected group has a greater proportion with non-mortgage loan balances below $10,000. Further, a higher proportion of targeted consumers pays a "lot more" than the minimum payment on combined monthly credit card bills, whereas a larger proportion of neglected consumers pays the full amount or does not have any credit card bill. These results suggest that credit card companies target consumers who use credit responsibly and neglect those who do not use credit.

Panel A of Table 5 reveals that higher proportions of targeted consumers were never more than thirty days late in paying a bill or had a late bill payment more than two years ago, while a greater proportion of neglected consumers were more than 30 days late in paying a bill in the last two years. In addition, larger proportions of targeted consumers never had a check returned for insufficient funds or had such an event more than two years ago whereas a higher proportion of neglected consumers had a check returned for insufficient funds in the last two years. The targeted group also has greater proportions of people who never had a "hard time" paying bills on time or experienced such difficulties more than two years ago and the neglected group has a larger proportion of consumers who had a "hard time" paying bills on time in the last two years. These results indicate that credit card companies target consumers who never had payment difficulties and neglect those who faced such difficulties in the past two years. Our finding that consumers who had payment difficulties more than two years ago

Table 5
Payment difficulties and credit damage of consumers targeted/neglected in credit card mail solicitations

	Targeted consumers	Neglected consumers	Difference	Z-stat
A: Payment difficulties				
>30 Days late paying a bill				
Never	45.81%	31.25%	14.56%****	12.00
>2 Years ago	21.01%	18.59%	2.42%**	2.45
Last 2 years	33.18%	50.16%	−16.98%****	−14.09
Check returned for insufficient funds				
Never	40.87%	38.57%	2.30%**	1.90
>2 Years ago	28.01%	24.57%	3.44%****	3.14
Last 2 Years	31.12%	36.86%	−5.74%****	−4.93
"Hard time" paying bills on time				
Never	34.70%	23.85%	10.85%****	9.52
>2 Years ago	25.18%	20.22%	4.96%****	4.74
Last 2 years	40.12%	55.93%	−15.81%****	−12.86
B: Credit damage				
Late payment call/letter from creditor				
Never	42.73%	29.20%	13.53%****	11.29
>2 Years ago	20.25%	17.36%	2.89%****	2.97
Last 2 years	37.02%	53.43%	−16.41%****	−13.44
Contact by collection agency				
Never	47.74%	32.51%	15.23%****	12.47
>2 Years ago	23.13%	19.92%	3.21%****	3.14
Last 2 years	29.13%	47.56%	−18.43%****	−15.58
Turned down for loan/credit card				
Never	36.80%	25.52%	11.28%****	9.72
>2 Years ago	21.05%	16.84%	4.21%****	4.30
Last 2 years	42.15%	57.65%	−15.50%****	−12.55

** Significant at 5% level.
**** Significant at 1% level.

are also targeted suggests that card companies do not view earlier payment difficulties negatively.

Panel B shows that larger proportions of targeted consumers never received a late payment call/letter from a creditor, were never contacted by a collection agency and were never turned down for a loan/credit card or experienced such events more than two years ago whereas higher proportions of neglected consumers had these experiences in the last two years. These results suggest that credit card companies target consumers who never suffered credit damage and neglect those who did so in the last two years. The finding that consumers who experienced credit damage more than two years ago are also targeted indicates that card companies do not perceive earlier credit damage adversely.

To identify the primary characteristics of the targeted and neglected consumers, we conduct principal components analysis, which constructs uncorrelated linear combinations of the individual attributes. Table 6 shows that four factors explain 57.43% of the variance for targeted consumers. The most important factor is whether the consumers had serious payment difficulties and credit damage, followed by some attributes indicating credit use (loan balances), financial resources (income and homeownership), and credit history (auto

Table 6
Principal components of consumers targeted in credit card mail solicitations

A: Variance explained by factors			
Factor	Eigenvalue	Percent of variance explained	Cumulative percent of variance explained
1	2.96	21.13	21.13
2	2.37	16.94	38.07
3	1.41	10.10	48.17
4	1.30	9.26	57.43
B: Identified factors			
Attribute		Rotated Loading	Characteristic
Factor 1			
1. >30 Days late paying a bill		0.87	Payment difficulties
2. "Hard time" paying bills on time		0.84	Payment difficulties
3. Contact by collection agency		0.73	Credit damage
4. Late payment call/letter from creditor		0.73	Credit damage
Factor 2			
1. Combined total non-mortgage loan balances		0.68	Credit use
2. Combined total before-tax income		0.67	Financial resources
3. Home ownership		0.66	Financial resources
4. Auto loan		0.59	Credit history
5. Home equity loan/line		0.49	Credit history
Factor 3			
1. Combined financial net worth		0.61	Financial resources
2. Payment of combined monthly credit card bills		0.50	Credit use
3. Other installment loans		0.37	Credit history
Factor 4			
1. Turned down for loan/credit card		0.82	Credit damage
2. Check returned for insufficient funds		0.61	Payment difficulties

loan and home equity loan). Relatively less important factors comprise other indicators of financial resources (net worth), credit use (payment of credit card bills), and credit history (other installment loans), followed by minor payment difficulties and credit damage.

Table 7 reveals that three factors explain 55.80% of the variance for neglected consumers. As for the targeted consumers, the most important factor for neglected consumers is also payment difficulties and credit damage. Unlike the result for targeted consumers, however, even minor payment difficulties and credit damage are important characteristics of neglected consumers. The second important factor for neglected consumers consists of some attributes indicating credit use (loan balances) and financial resources (income and homeownership), and all the indicators of credit history. This is similar to the second factor for targeted consumers, except that other installment loans are included here. The last factor consists of the relatively less important indicators of financial resources (net worth) and credit use (payment of credit card bills), which were also included in the third factor for targeted consumers.

In conjunction with the results for the individual attributes in Tables 3 through 5, the findings of the principal components analysis in Tables 6 and 7 suggest that the most important characteristics of targeted consumers are that they do not have serious recent

Table 7
Principal components of consumers neglected in credit card mail solicitations

A: Variance explained by factors			
Factor	Eigenvalue	Percent of variance explained	Cumulative percent of variance explained
1	3.90	27.85	27.85
2	2.66	19.02	46.87
3	1.25	8.93	55.80

B: Identified factors		
Attribute	Rotated Loading	Characteristic
Factor 1		
1. >30 Days late paying a bill	0.91	Payment difficulties
2. Contact by collection agency	0.89	Credit damage
3. "Hard time" paying bills on time	0.86	Payment difficulties
4. Late payment call/letter from creditor	0.83	Credit damage
5. Check returned for insufficient funds	0.69	Payment difficulties
6. Turned down for loan/credit card	0.61	Credit damage
Factor 2		
1. Combined total non-mortgage loan balances	0.71	Credit use
2. Combined total before-tax income	−0.70	Financial resources
3. Auto loan	0.66	Credit history
4. Home ownership	0.59	Financial resources
5. Home equity loan/line	0.48	Credit history
6. Other installment loans	0.46	Credit history
Factor 3		
1. Combined financial net worth	0.61	Financial resources
2. Payment of combined monthly credit card bills	0.55	Credit use

payment difficulties and credit damage. In addition, they have strong financial resources, substantial and responsible credit use, and established credit history. The most important characteristics of neglected consumers are that they have recent payment difficulties and credit damage. They also have weak financial resources, little or no credit use, and scant credit history.

The results of this study have important implications for consumers. With the widespread ownership and use of credit cards, consumers have a vital stake in the financial well-being of the credit card industry. From this perspective, the finding that credit card companies target more credit-worthy consumers and neglect less credit-worthy ones is reassuring. Sound financial policies followed by the credit card industry ensure that consumers will continue to have access to this increasingly important source of credit.

Our findings also hold important lessons that are relevant for financial planning. The consumer characteristics that are attractive to credit card companies are timely payments and sound credit, responsible credit use, strong financial resources, and established credit history. The characteristics that credit card companies find undesirable are late payments and damaged credit, weak financial resources, little or no credit use and scant credit history. Consumers with attractive characteristics are likely to have the greatest access to credit and those with undesirable characteristics will have the least access to credit. While the financial

resources available to consumers may be largely beyond their control, they can directly influence the other characteristics. To have the greatest access to credit, consumers must make timely payments, build a sound credit record, use credit responsibly, and establish a credit history.

7. Conclusions

This study identifies the significant attributes and primary characteristics of consumers who are targeted and those who are neglected in mail solicitations by credit card companies. We find that credit card companies target consumers who do not have recent payment difficulties and credit damage, and have strong financial resources, substantial and responsible credit use, and established credit history. They neglect consumers who have recent payment difficulties and credit damage, weak financial resources, little or no credit use, and scant credit history.

Our results show that credit card companies target more credit-worthy consumers and neglect less credit-worthy ones. The increasing proportion of financially weaker and riskier credit card holders reported by some researchers cannot be attributed to a deliberate policy of targeting riskier consumers on the part of credit card companies. It may reflect saturation of credit to more credit-worthy consumers and increasing use of credit by less credit-worthy consumers. Riskier consumers who have fewer credit cards are more likely to respond to mail solicitations and if the qualified applicants among them are approved, the proportion of riskier credit-card holders may increase. Because our findings indicate that credit card companies do not target riskier consumers, future researchers may focus on alternative explanations for the rising proportion of riskier cardholders.

Notes

1. Recent statistics regarding credit cards are available at www.cardweb.com.
2. High loan balances might be considered risky by themselves, but if the target group also has strong financial resources, as we hypothesize, then high loan balances are not really risky but indicate use of credit.
3. The authors are responsible for any question about the use of the data.

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