

Charge It! Why Credit-Card Firms Want to Help You Pay Your Rent

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Heather Goedjen is the kind of customer that the credit-card industry dreams about. She pays for her groceries, health-club membership and phone bill -- all on her trusty MasterCard. Last month, she even started paying the \$600 rent on her one-bedroom Dallas apartment with plastic. "I try and put everything on my card," she says.

Hungry for new profits, Visa, MasterCard and [American Express](#) are stepping up their efforts to get people to say "charge it" for more and more of their purchases. In recent years, the industry has made it easier to pay for tuition, taxes and charitable contributions with credit cards. The monthly rent payment is the latest target. In recent weeks, Visa has made it possible for thousands of apartment dwellers to pay their rent with credit cards.

On the other end of the spectrum, Visa has a senior executive staking out McDonald's, trying to figure out how to make paying with a card even faster than using cash. MasterCard is making it easier for cable companies and utilities to accept credit cards by cutting the fee it charges for processing payments. American Express is aiming at some of the biggest-ticket items around: mortgages and car payments.

The hypercompetitive economics of the credit-card business is driving the quest to penetrate "emerging markets." The card firms long ago met the goal of a card in every wallet: The average household now has more than five. Now, credit-card issuers, aiming squarely at checks and cash, want people to use the card in new places for bigger purchases. The stakes are huge since merchants pay the card companies about 2% of the purchase price on every transaction they process. Also, the bigger the balance carried by a cardholder, the more money in interest payments the companies make. The average credit-card debt per household soared to \$8,367 last year, more than double the 1993 level, according to [CardWeb.com](#). The holy grail is recurring payments, the bills that people pay each month.

For consumers, clearly the biggest incentive to charge more is free stuff, since many cards award frequent-flier miles or other goodies based on spending. The addition of regular big-ticket expense to a monthly card bill can make the miles add up at jet speed. Convenience is the other big advantage.

There is an emerging downside, however. Some institutions are trying to pass along the expense of charging back to people. Universities in particular have been taken aback by the popularity of charging tuition as mileage-obsessed parents gleefully paid their bills with credit cards. For the schools, the 2% fee they must pay the card companies has added up to millions of dollars. Williams College has dropped its credit-card program altogether, tired of losing tens of thousands dollars in fees simply to subsidize the vacations of affluent parents.

Other schools are fighting back, trying to get the parents to pick up the extra cost. Some universities have told the card companies that they would like to pass the merchant fees on to the students and their families. But Visa in particular refuses to allow any merchant to charge a service fee (though it made an exception for the IRS this year). So some schools have taken another approach: charging "technology" fees if they've installed special phone or computer gear to facilitate card acceptance. So now, schools like the University of Washington and Kansas State University charge such fees, which can add 2% to each semester's bill.

This tactic is similar to one the Internal Revenue Service uses. Anyone who wanted to pay his or her taxes with a credit card this year was free to do so, but the IRS tacked on a 2.5% "convenience fee."

In the quest to conquer cash, Visa and the other companies are trying to make it faster and easier to use cards. At McDonald's, where Visa is testing pilot programs in Salt Lake City and 400 locations in the Great Lakes region, the company realized it wasn't even necessary to get people to sign for their purchases. (Customers are allowed to simply "swipe" their cards in machines.) That's because there aren't the same fraud worries that plague, say, electronic retailers, where thieves use stolen cards to buy TVs and stereos in order to resell them. "There is no second-hand market for a used hamburger," says Armen Khachadourian, senior vice president of Visa USA.

The industry is obsessed with the biggest recurring expense of all -- the monthly housing bill. American Express confirms that it is "beginning to explore" ways for consumers to charge their mortgage payments, but says it hasn't made much progress in the enormous market. Still, the card firms have made inroads into the rentals. Residents at 190,000 apartments owned or managed by Apartment Investment & Management Co. have been able to charge their rent for at least a year. About 12% do so today.

Rent charging is proving even more popular in Dallas, where a development called The Village started accepting Visa and MasterCard on March 1. So far, several hundred apartment dwellers in the 7,250-unit complex, who pay about \$900 for rent on average, have signed up.

Mileophiles are now pushing car dealers to accept credit cards, too, and American Express says it's in preliminary discussions with big dealerships and leasing companies. Already, more than 5% of car shoppers are using credit cards for down payments. But the dealers are wary of giving up a 2% fee to the card companies. "The margins are just not there," says John Ray, the sales manager at Lively Cadillac GMC in Longview, Texas. "Once people get on the Internet and negotiate us down to nothing, they can't then come in and want to pay for it all with a credit card. There's no meat left on that bone."

Still, Mr. Ray is sympathetic. He and his wife charge all of their son's college expenses at Texas Christian University to their Marriott Rewards Visa card. Then, they spend the fall traveling with their alma mater's football team, staying free in rooms paid for with bonus points.