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What electronic payments reveal about you to lenders

Your credit card is a tattletale, telling creditors about your behavior

By Connie Prater

Editor's note: See updated version of this article: [What you buy, where you shop can affect your credit](#)

Think of it as an electronic bug in your wallet.

Every time you make a purchase on a credit card or debit card, a record of that transaction is logged into a database of information collected by your credit card issuer.

In exchange for the convenience of using plastic, you also give up something some people hold dear -- privacy. Many privacy experts warn that consumers should be mindful of what they buy with plastic.

How much do credit card issuers know about your purchases? What can they legally do with the information?

Privacy questions

"Obviously that is something that most credit cardholders are not going to think about," says Paul Stephens, director of policy and advocacy for the Privacy Rights Clearinghouse, a San Diego-based privacy rights groups. "They've obtained a credit card and think they can go out and use it in any way they like."

Have you used your credit card at merchants specializing in secondhand clothing, retread tires, bail bond services, massages, casino gambling or betting? Your credit card issuer may be taking note -- and making decisions about your creditworthiness based on your purchasing behavior. The reason: Buying used clothing or retread tires may be an indication of financial distress and a preamble to missed credit card payments or defaults.

Increasingly, issuers [tightening lending standards](#) are using purchasing data as a basis for increasing interest rates, reducing [credit limit](#) or both on customers considered more risky by virtue of where they shop or what types of goods and services they buy.

Experts say cardholders concerned about keeping purchasing habits private or avoiding credit score dings should consider using cash or gift, stored value or prepaid debit cards. Shopping at large supermarkets or wholesale clubs -- which offer a variety of product lines -- may also keep some purchases private. Other tips: Spread purchases that may indicate risky behavior over several credit cards to avoid triggering an alert for a single issuer.

"Cash is the ultimate privacy protector," says Stephens. "It's kind of hard to trace. Most other payment mechanisms there is going to be a trail."



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National Average	14.34%
Low Interest	12.11%
Cash Back	12.49%
Balance Transfer	12.81%
Business	12.85%
Airline	14.37%
Reward	14.40%
Student	14.49%
Instant Approval	15.99%
Bad Credit	20.89%

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But avoiding credit cards for the sake of privacy may present a quandary for some users: If they had the cash to pay for an item, they wouldn't need a credit card. For others, the convenience of using a credit card over other payment methods far outweighs the potential privacy concerns.

Mining for data

Known by a number of terms in the industry, including behavioral modeling, data mining and psychographic behavior analysis, the practice of mining internal credit card issuer databases for customer spending trends and other patterns is not new. Issuers have been analyzing data perhaps since the first credit cards were issued.

Representatives from the four top credit card issuers -- [Bank of America](#), [Citi](#), [Chase](#) and Wells Fargo -- declined to discuss details of how they use purchasing data internally. Many consider this highly proprietary information. A spokeswoman from a banking industry trade group acknowledged that the practice is common.

"The issuing bank has the date of transaction, name of the merchant and the amount of the transaction that allows them to process that transaction," says Nessa Feddis, senior counsel and vice president of the American Bankers Association. She says specific information about items purchased (that you bought a gallon of milk, for example) is not included in the data transferred from the merchant. "As a general rule, the specific transaction information is not transmitted to the issuing bank. They are going to know where the person used the card."

Keeping track

Tracking is conducted for four primary reasons:

- **Marketing.** Issuers use past purchasing patterns as a basis for offering additional products. Someone purchasing airline tickets with their credit card may get offers of airline rewards credit cards or travel-related services from the issuer or an affiliate.
- **Fraud detection.** Credit card companies monitor spending to detect unusual purchasing habits that could be red flags for fraud.
- **Risk management.** Card users who continually go over their credit limits or exhibit unusual spending habits -- such as charging large amounts of merchandise on a card they had previously rarely used -- may be at greater risk of not paying their bills or filing for bankruptcy.
- **Law enforcement.** Remember that TV crime show where police tracked a missing person and a killer using credit card transaction data? Law enforcement agencies can subpoena records from both the credit card issuer and the merchant to find out the time, date and place of a credit card purchase -- information that may be helpful in determining the last known location of a crime victim or suspect. The Department of Homeland Security also [tracks terrorist activity](#) by monitoring certain purchases.

Massive databases of information

Millions of credit card users receive monthly statements detailing their spending during the billing cycle: The standard information provided includes the date of a purchase, the place of the purchase, including the name of the merchant, city, state, amount of the purchase and a transaction reference number.

Tracking credit card purchases with merchant category codes (MCC)

Here's a sample of the electronic payment tracking codes assigned to different types of merchants:

- 4900 Bail and bond payments
- 5300 Wholesale clubs (Costco, Sams, etc.)
- 5411 Grocery supermarkets
- 5532 Automotive stores
- 5698 Wig and toupee stores
- 5813 Drinking places (bars, nightclubs)
- 5814 Fast food restaurants
- 5912 Drug stores and pharmacies
- 5921 Packaged beer, wine and liquor stores
- 5931 Used and secondhand stores
- 5933 Pawnshops
- 5944 Jewelry, watches, clocks and silverware stores
- 7251 Shoe repair shops
- 7273 Dating/escort services
- 7277 Counseling services (debt, marriage, personal)
- 7297 Massage parlors
- 7393 Detective agencies
- 7534 Tire retreading and tire repair
- 7995 Betting/casino gambling establishments
- 8011 Doctors
- 8062 Hospitals
- 8099 Medical services
- 8351 Child care services
- 8651 Political organizations
- 9211 Court costs (child support and alimony payments)

A complete MCC list can be found on the [IRS website](#).



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Every transaction processed by the card networks ([Visa](#) and [MasterCard](#)) is assigned a [merchant category code](#) (MCC), a four-digit number that denotes the type of business providing a service or selling merchandise. The MCC for pawnshops, for example, is 5933. For dating and escort services, it's 7273, and for massage parlors, it's 7297. (See [MCC list](#)).

The MCC is used, for example, to restrict health care spending on [health care-related credit and debit cards](#). Some health care flexible spending accounts allow users to make purchases only at pharmacies or merchants with medical-related services. Small business owners also use the codes to prevent [employee abuse of company credit cards](#).

The MCCs, along with the name of the merchant, give credit card issuers a spyglass into cardholders' spending.

'A pretty clear picture'

Stephens says the database's purchasing information can provide a pretty clear picture of credit card users. "What do they know about you? Depending on how extensively you use your credit card, they conceivably have a very clear, distinct picture of an individual. It's not only your retail purchases, but your online purchases. It can really paint a very complete picture. The stores that you shop at can paint a picture. You also may use it at a doctor's office if you pay for care with a credit card. Some people pay for their utilities with credit cards."

Depending on how extensively you use your credit card, they conceivably have a very clear, distinct picture of an individual.

-- Paul Stephens
privacy rights expert

Federal financial privacy laws ([Regulation P](#)) prohibit credit card issuers from sharing your personal and payment information with third parties not affiliated with the issuer (except under court order or when fraud is involved). Banks must send annual copies of their privacy policies to cardholders, but the law does not govern what the issuer does with payment information internally.

It is a common industry practice to analyze the data for trends. Several issuers offer cardholders annual summaries of their spending that categorize purchasing by type of merchant and amounts spent. This information can be a handy tool to help families budget for the coming year and determine where they can cut back in spending.

"Once you use your credit card at a store, that code is tracked," says Steve Shaw, a strategic marketing manager for Fiserv, a company that develops online banking software to help financial institutions manage customer accounts. Shaw says banks are developing programs to track customer transactions and activities. The information is used to help make customer-specific offers of services. "A lot of financial institutions are trying to find more ways to generate revenue."

A rare glimpse into the details of behavioral modeling was revealed in a federal lawsuit filed by the Federal Trade Commission in June 2008 against subprime credit card marketer CompuCredit Corp. According to the [lawsuit](#), CompuCredit used an undisclosed behavioral scoring model to track customer purchases. The company lowered credit limits on cardholders who shopped at certain establishments or used certain services, including pawnshops, massage parlors, tire retread shops, marriage counselors and bars and nightclubs.

CompuCredit agreed to a [settlement](#) that included crediting \$114 million to the accounts of affected cardholders and paying a \$2.4 million penalty. The company did not admit any wrongdoing in the settlement.

Risky behavior?

The recent credit crunch has placed greater emphasis on using the data to predict who may be a higher credit risk. Credit card issuers have said people living in states hard hit by foreclosures, such as Florida, Nevada and California (referred to as "the sand states") may be considered increased risks by virtue of the fact that they live there. People who shop at the same establishments where subprime borrowers shop also may be considered higher risk.

Feddiss, the ABA spokeswoman, says decisions to cut credit limits based on customer behavior

What they track

Credit card issuers must state their privacy policies regarding personal information of customers. Here's what a few of the major credit card issuers say about tracking purchases:

Bank of America's [policy](#) discloses that it collects information about "account usage."

Chase [reveals](#), "Once you have been issued a card, we get information about you from the ways in which you use your card."

According to [Citi's policy](#), personal information it collects and may disclose includes "information about your transactions, such as your account balances, payment history, and account activity."

are based on evidence. "They don't want to risk a bad judgment that's going to lose a good customer. It's too hard to get a good customer," Feddis says. "They must have some sort of statistics that would demonstrate it's predictive -- to show that people who shop at pawnshops within six months stop paying their credit card bills."

Stephens, the privacy expert, warns of the potential fallout of using purchasing data. "One of the dangers of data mining is you're getting a little snippet of information that doesn't portray the full picture," he says. Does one purchase at a pawnshop signal a pattern of credit trouble? How many purchases qualify?

Stephens says issuers should make clear disclosures about how they use purchasing data: "We recognize that most consumers don't read privacy policies, but nonetheless, a company that is utilizing data in this fashion ought to make it quite clear that the purchase transaction history is being utilized for purposes other than billing ... that they are using it to make re-pricing decisions as well as credit line adjustment decisions."

To comment on this article, write to: Editors@CreditCards.com.

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Published: January 13, 2009

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