Small Banks Dive Back Into Credit-Card Pool

By SUZANNE KAPNER, MATTHIAS RIEKER and ANDREW R. JOHNSON

Grenville Sutcliffe has had his share of credit cards over the years, but each disappointed him.

Some cards issued by big banks blocked transactions he made while traveling overseas, leaving Mr. Sutcliffe, who runs a St. Louis-area company that makes petroleum equipment, without credit in far-off locales like Kuala Lumpur, Malaysia. Others failed to respond promptly to billing disputes.

Although he still has some of those cards, the one he uses most now is issued by Commerce Bank, a Kansas City, Mo., unit of Commerce Bancshares Inc., which has $20.4 billion in assets. He hasn't looked back.

Squeezed by new rules that make debit cards less profitable and awash in deposits that they must put to work, regional banks and community lenders are making a big push into credit-card lending, often diving back into a business they had exited years before amid the onslaught of bigger players. As they try to eke out growth in a world of low interest rates, smaller banks are finding they can no longer afford to let others serve their best customers.

They are re-entering the business at a time of upheaval. Consumers have been paring the use of cards while they get their finances in order, while large banks have been shrinking card portfolios to meet new capital requirements, potentially giving smaller lenders an opening.

Among the banks making a new push to sell credit cards: M&T Bank Corp. of Buffalo, N.Y.; Regions Financial Corp. of Birmingham, Ala.; Sovereign Bank, a unit of Banco Santander SA of Spain; and Huntington Bancshares Inc. of Columbus, Ohio.

One of the big reasons behind the push by smaller banks is a desire on the part of lenders to sell more products to existing customers. Known as cross selling, such marketing is one way banks hope to increase revenue in a world in which interest rates are likely to be stuck near zero for the foreseeable future. The Fed has said it plans to keep rates at "exceptionally low levels" at least through late 2014.

*When you have your own credit-card program, you get a lot of information on
customer-spending habits," said Richard Gold, M&T’s executive vice president for mortgage and consumer lending. "When that data resides somewhere else, you are relinquishing a strategic asset to a competitor."

But the smaller banks face a David-and-Goliath-like battle as they try to muscle their way into a business that has come to be dominated by a few large lenders. The top six issuers control about 75% of the purchase volume and the lion’s share of outstanding balances, according to industry newsletter the Nilson Report. The biggest U.S. credit-card issuer, J.P. Morgan Chase & Co., had $124 billion in outstanding balances at the end of June, followed by Bank of America Corp. with $105 billion and Citigroup Inc. with $88 billion, according to Nilson. All three reported slight declines in outstanding balances over the past year.

While M&T and Regions were among a handful of smaller lenders to show significant growth in outstanding balances last year, up 126% and 19%, respectively, according to Keefe, Bruyette & Woods, both portfolios remain minuscule by industry standards. M&T had just $250 million in outstanding balances as of June.

To be sure, competing with the flood of direct mail and rich incentives from big banks is a tall order for regional banks. Industry observers estimate that it can cost as much as $300 to acquire a new credit-card customer through direct mail, an amount that is out of reach for most regional banks.

Further complicating the efforts: Consumers are getting rid of cards, the Federal Reserve Bank of Cleveland said in a report this month. It said 24% of consumers have no bank card, compared with 16% two years ago.

The pruning has taken place even as banks send out more solicitations. "It seems that banks wanted to provide more credit (in the form of credit card offers) to households, but consumers did not want to ask for that credit," the report said.

"Yes, I am tempted" to try building a card business, said Dick Evans, chief executive of Cullen/Frost Bankers Inc., a San Antonio-based bank with $21 billion in assets. But noting the large portfolios of the biggest U.S. banks, he added, "I just don't think you can get there."

To get around these problems, smaller banks are forgoing the direct-mail route and instead reaching out to customers in their branches who they believe would be more apt to consider a card from their local bank.

Jocelyn Goldberg Schaible of Victor, N.Y., said that although she has six credit cards from large banks, she recently applied for an M&T card after seeing promotional signs in her upstate New York branch.

"It's not that I needed a new card," Ms. Goldberg Schaible said. "But it filled a niche nicely."

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