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The Meteoric Rise and Fall of Proprietary Gas Cards

Once a lifeline for many consumers, these cards can have many pitfalls today.

These days, there are generally better options available.

By Claire Tsosie | Feb. 16, 2016, at 11:02 a.m. + More

Gone are the days when the only credit cards gas stations would take were their own private-label cards. Nowadays, most people buying gas on credit are using general-purpose credit cards. And it's no wonder: Proprietary gas cards, which can only be used at certain gas stations such as Shell, Chevron or BP, often come with mediocre rewards, high interest rates and an array of restrictions.

The number of gas card accounts has been falling. In 2012, there were only about 7.3 million active proprietary gas card accounts, according to Nilson Report data. Compare that with the nearly 188 million active general-purpose credit cards that year. In 2013, the number of active proprietary gas card accounts slid to about 6.7 million, with 17.7 million circulated cards in total. The number of cards circulated is greater than the number of accounts because in some cases more than one card is tied to each account.

If you have fair or poor credit, and don't plan on carrying a balance, these private-label gas cards might be an OK option. But general-purpose cards, which usually come with higher rewards rates, less-confusing terms and lower APRs, typically offer more overall value. That could be one reason so many people have switched.

"If the price of gasoline stays low, and the amount of debt Americans owe on credit cards stays the same, I think it's going to be a very cold period for gas credit cards," says David Robertson, publisher of the Nilson Report.

These cards used to be a big deal. In fact, as recently as 1987, there were more than 100 million in circulation in the U.S., writes economist Lewis Mandell in "The Credit Card Industry: A History."

When Proprietary Gas Cards Were Popular

The rise of gas cards started with the Arab oil embargo of 1973 and 1974, when OPEC stopped selling oil to the U.S. The cost of a barrel of oil almost quadrupled, according to the Federal Reserve, which in turn drove up the cost of gas. Even after the embargo was lifted, gas prices remained high, causing many consumers to lean on credit. But to save on merchant fees, many gas companies stopped accepting any credit cards but their own.

"Consumers applied for many oil company cards, and the oil companies began to refuse bank cards," Mandell writes. "In the late summer of 1979, both Mobil and Texaco dropped bank cards, and others soon followed."

With gas stations rejecting all credit cards except their own, proprietary gas cards became more valuable, especially to those who couldn't afford gas upfront. But when companies started restricting the issuance of these cards, the number of outstanding cards dropped from 126 million in 1978 to 110 million in 1980, Mandell writes. By the early '80s, gas stations began accepting general-purpose credit cards again, and proprietary cards continued to fall out of favor. Consumers in search of the best deal began opting for cards that offered rewards everywhere instead of only certain gas stations.

Rewards Shrink as Prices Rise

It's not surprising that people started choosing general-purpose cards over private-label ones, once they had the option. For one thing, private-label cards were more complicated and usually less rewarding. They typically earn rewards in cents per gallon, rather than cents per dollar like general-purpose cards.

"It's confusing. You've got to do some math. But the cents-off-per-gallon thing really resonates with consumers," says Gray Taylor, executive director of Conexxus, an industry group that develops and implements new technologies for convenience stores and gas stations.

Take the Shell Drive for Five Card, for instance. You get an unlimited 5 cents off per gallon of gas you purchase at Shell. That's a 2.5 percent rewards rate when gas is $2 a gallon – a decent deal. But that rewards rate gets lower as the price gets higher. When gas is $3 a gallon, the rewards rate drops to 1.67 percent. At $4 a gallon, it's 1.25 percent.

Here are some other things you should watch out for with these cards:

● **Minimum purchases.** The Valero card advertises that you can "earn up to 8 cents per gallon on fuel purchases." But in the fine print, it notes that you'll only begin earning rewards – starting at 4 cents per gallon – after you purchase 50 gallons of Valero gas in a billing cycle.

● **High interest rates.** Most proprietary gas cards have interest rates north of 25 percent APR. Carrying a balance on these cards is very expensive.

● **Confusing policies.** Compared with general-purpose cards, proprietary gas cards tend to have far more restrictions listed in their terms and conditions, including discount expirations, exclusions on purchases and maximums on rebates.

Mandell, now an economics professor and dean emeritus at the University at Buffalo, notes that complicated rewards systems often give the illusion of offering more value. "In terms of behavioral economics, it has great appeal to certain people who really like lotteries," he says. But if you can't easily understand the redemption policies on your card, he says, there's a good chance you aren't getting the best deal.

The main upside to proprietary gas cards, Taylor notes, is that you can generally qualify for them with fair or poor credit. "They're definitely going after the underserved. And that, I think, is a valuable thing," he says. But personally, he says he hasn't carried one of these cards since 1982.

For Many, There Are Better Options

Among the proprietary gas cards branded by the top 11 gas companies – including offers from Shell, Chevron, Valero and Speedway – the Exxon Mobil card, which updated its rewards system on Feb. 1, currently offers the most generous terms: You get 6 cents off per gallon in the form of an automatically applied statement credit. At gas prices of $2 a gallon, that's a respectable 3 percent rewards rate, with no limit on rewards.

The downside? You can't use it anywhere but Exxon Mobil, and it carries an APR of 25.24 percent. Sunoco, Citgo and Shell all tie for second-place; each offers a 5-cent discount on each gallon of gas. If you have subpar credit, or your gas station offers additional benefits to private-label cardholders, such a card might be a fine deal.

But for many, general-purpose rewards credit cards consistently offer the best value. Here are just a few general-purpose cards that offer excellent rewards both at the pump and at the grocery store – rewards based on the dollar value of your purchase, rather than how many gallons you buy:

● **PenFed Platinum Rewards Visa Signature Card:** Offers an unlimited 5 points per dollar spent on gas purchases and 3 points per dollar spent on supermarket purchases. Points are redeemable for 1 cent each. There is no annual fee.

● **Blue Cash Preferred Card from American Express:** Offers an unlimited 3 percent cash back at gas stations and department stores, and 6 percent cash back at supermarkets for the first $6,000 in supermarket purchases each year. The annual fee is $75.

● **BankAmericard Cash Rewards:** Offers 3 percent at gas stations and 2 percent at grocery stores, up to $1,500 in gas and grocery store purchases each quarter. There is no annual fee.

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Forty years ago, proprietary gas cards played an important role in credit card history, and helped millions of households with few options finance their way through a difficult time. But these days, there are far better options available.

Robertson, the publisher of the Nilson Report, puts it simply: "Private-label and proprietary credit cards lost the race to MasterCard and Visa decades ago," he says. "There's not enough incentive to use these cards."

TAGS: personal finance, money, gas prices, Federal Reserve, credit, credit cards, consumers

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