

# The Credit Card Accountability, Responsibility and Disclosure (CARD) Act

## A BITTER PILL FOR HEALTHCARE PROVIDERS

Though few of us can remember what life was like without credit cards, a certain percentage of us may soon be forced to return to those bygone days. Thanks to the CARD Act, the popular commercial of the last century, "Don't leave home without it," may be more of an anachronism than we could have ever imagined.

According to many industry sources, restrictions imposed by the CARD Act on the credit card industry will hurt consumers more than it helps them.

### How the CARD Act will Help Patients:

- Increases in interest rates will only be allowed in certain situations
- Limitations on penalties relating to late fees
- Restrictions on low annual percentage rates that change unpredictably
- Tighter regulation on late billing practices, which will make it easier for consumers to pay on time

Over the last 18 months, healthcare providers have witnessed first hand the financial stresses placed on their patients. Faced with a massive economic downturn and a doubling of credit card default rates since 2006, credit card issuers began tightening credit and raising standards even before the CARD Act was proposed. During the past year, issuers cut the number of issued cards by 82 million, or 19%, while also slashing credit limits by \$721 billion. Even more dramatic, the number of new cards issued decreased from 4.7 million in June 2008 to 2.6 million in June 2009.

Credit tightening strategies will become even higher priorities for lenders when the CARD Act takes effect. Because lenders will no longer be able to charge fees and higher interest rates to their borrowers with impaired credit, their yields will suffer. To make up for the shortfall, credit card issuers are expected to limit credit for existing borrowers, impose higher rates overall, and require larger minimum monthly payments to further reduce their risk.

### How the CARD Act will Hurt Providers

- Lenders will reduce available credit to patients, only lending to individuals with good credit – many patients that used to pay with credit cards will no longer have that option
- Qualifying borrowers will face increased interest rates and larger minimum monthly payments – making them reluctant to use credit cards to pay for healthcare obligations
- Healthcare providers must seek alternative strategies such as internal payment plans or partnership with a third-party

Furthermore, only individuals with pristine credit (above 700 one industry expert predicts) will receive new credit lines, leaving people who might have gotten credit in the past out in the cold -- and often unable to pay healthcare bills. That means that healthcare providers will have to create viable repayment options, or partner with a lender that understands healthcare and can effectively lend into this market.

Healthcare providers like Florida Hospital readily attest to the benefits of planning ahead. As Coy Ingram, Director of Self Pay Management, notes, "We implemented a patient loan program in April 2007, making revolving lines of credit available to patients at all points of patient access and from the financial services business office. In the first 12 months, we qualified approximately 15,000 patients for the program, increased cash collections and significantly reduced bad debt write-offs."

Cedars-Sinai Outpatient Cancer Center implemented a similar program in mid-2006. According to the Center's Patient Accounts Manager, Dennis Hacela, "The program we chose was simple to integrate into our existing revenue cycle. It quickly reduced the number of accounts we had previously referred to collections and, most importantly, also increased patient satisfaction."

The CARD Act is scheduled to take effect in February, 2010. As the two previous examples illustrate, hospitals should be strategizing now so that they are in a position to help their patients -- and also help themselves.

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