Dec. 15, 2014

A crystal ball is a valuable thing. After all, if any of us truly had one, we could make a killing in the stock market. But while 20-20 vision is ultimately reserved for hindsight and no one can actually predict the future, we can indeed make some educated guesses as to what the coming months will hold for our wallets.

Doing so is especially important as we prepare to celebrate the holidays, ring in the New Year, and turn the page on 2014 because it will enable us to chart a path toward financial success in 2015 and away from missteps and money loss. With that in mind, CardHub's editors have consulted a number of prominent financial experts in making

1. **Interest Rates Will Rise But Remain Near Record Lows**
   The Federal Reserve has kept short-term interest rates near zero for some time now, and there is little reason to expect significant changes in this regard as we enter 2015, despite the Fed recently curtailing its bond-buying program. That's because the Fed has also pledged to suppress rates for a "considerable time."
   With that being said, there is a divide among the experts we consulted in terms of the fate of rates in the New Year. Most of them believe that credit card interest rates will hold steady, including Matt R. Sheridan, a senior lecturer in finance at The Ohio State University, who says, "I do not expect a meaningful rise in rates in 2015. The credit card companies have strong pricing power with Libor falling and improving fundamentals. … In addition, with oil prices down almost 30% it is reasonable to expect strong consumer spending in the coming months which will boost credit card transactions."

   A few others, however, foresee increases of 1 to 2 percentage points in 2015. "I expect short term rates to rise during 2015, and hence credit card interest rates to rise," says Hal Heaton, the Denny Brown Professor of Finance at Brigham Young University. "The forward rates on short term rates are looking at about a 1% (100 basis point) rise during 2015."

   With that in mind, it's fair to expect slight increases in average rates, yet an overall market where it is still very inexpensive to borrow.

2. **Credit Will Be Increasingly Available**
   All of the experts we consulted expect credit to be in greater abundance in 2015 due to a confluence of factors, from the improvement of the economy and household balance sheets to the need for banks to boost profits in the absence of significantly

higher interest rates. So, if you have been unable to open a credit card of late, you

in the industry are currently quite low for most banks, so the only way for banks to post profit increases in 2015 and 2016 is through enhanced revenue generation."

3. **We Will Rack Up $60 Billion in Credit Card Debt**
   While many economic indicators are painting a relatively rosy picture of our economic trajectory, credit card debt levels are one metric offering cause for concern. We've steadily added more and more credit card debt over the past three years, from a $36.8 billion build-up in 2012 to $38.8 billion in 2013 and now a projected $54.8 in 2014. We can only expect this downhill slide to continue in 2015, as consumers clearly have not learned anything about the dangers of overleveraging from the trials and tribulations of the Great Recession.
   Our panel of experts tends to agree with this assessment. Ryan M. Brewer, assistant professor of finance at IUPUI Columbus, believes that, "Consumer debt levels will rise slightly as consumer confidence continues its slightly upward trend going forward. Americans will take on a bit more debt as they begin to see wages rise and jobs continue to be comparatively more available versus in recent times."

4. **Apple Pay Will Gain Market Share**
   In recent years, we have forecast the mobile wallet industry gaining little traction with consumers. This year appears to be different, however, following the high-profile release of Apple Pay. Not only did Apple Pay hit the market with a great deal of hype, but early returns have shown the system to be a success at the relatively small number of stores equipped to replace it. As more stores come online and as Apple Pay-equipped devices further permeate the market, we can only expect adoption to increase significantly – further extending the lead Apple has established for itself over the rest of the mobile payments market.
5. **Checking Account Overdrafts Will Be Regulated as Credit**
   The end of 2014 saw the Consumer Financial Protection Bureau introduce a new set of rules for the prepaid card market. Among them are a number of provisions that classify overdraft protection as an extension of credit and extend credit-

related underwriting rules to prepaid cards as a result. This, of course, begs the

Chip-based credit cards have slowly crept into the consciousness of the general public, as more and more financial institutions begin to offer them to U.S. markets in the face of high-profile data breaches and impending changes to card network rules. This process will only intensify in 2015, as fraud liability rules that will transfer the burden of paying for unauthorized charges from banks to merchants who have not updated their payment terminals to chip card readers are scheduled to take effect in October. The more chip-based cards and chip card readers are on the market, the harder it will be for fraudsters to steal credit card information.

7. **Data Breaches Will Continue to Wreak Havoc**
   While some may refer to 2014 as the Year of the Data Breach, such a label displays an inherent level of optimism that is unlikely to prove accurate. The types of massive data breaches that afflicted the likes of Michael's, P.F. Chang's and Home Depot will decline yet undoubtedly continue as the calendar turns to 2015, fostering consumer concern over privacy and fraudulent money loss, creating a public relations nightmare for retailers, and putting financial pressure on banks. These intrusions simply appear to be a fact of life in modern commerce, something we must learn to adapt to rather than solve completely.
   "We live in an era where data breaches are not an IF, they're a WHEN," says Mike Whitman, Program Coordinator for BBA-Information Security and Assurance at Kennesaw State University. "Perfect security is a myth. Any organization, any individual can be the target of a data breach."

8. **Rewards Will Continue to Be Bountiful**
   Rewards remained strong in 2014, with the value of both cash back and points/miles initial bonuses increasing 7% – 18% relative to 2013. In fact, not only did the best initial bonuses on the market remain available, but the upper reaches of the rewards market got even more crowded as newly competitive offers were introduced. And while the average base earn rate for cash back credit cards fell about 4%, the value of ongoing points/miles crept up about 1%.

We expect similarly little change in the value of rewards in 2015. You see, while

While the real estate market has plateaued of late, failing to truly usher the country out of the recession it helped create, most estimates are optimistic for 2015. Modest improvements are expected thanks to interest rates that will remain near record lows as well as a more robust job market, pent-up purchasing demand, and increased credit availability due to new mortgage guidelines.
For example, Robert S. Chirinko, professor of finance at the University of Illinois at Chicago, foresees "a slight rise in rates, as the effects of QE dissipate and the housing recovery proceeds slowly."

0. **Private Mortgage Insurance Will Take Center Stage**
Fannie Mae and Freddie Mac recently announced new underwriting rules that reduce the required down payment for homebuyers from 5% to 3%. This will serve to increase the number of people purchasing a home with less than a 20% down payment and therefore in the market for mortgage insurance. FHA-backed loans were the preferred means of satisfying this requirement during the Great Recession, but the cost of FHA premiums has nearly doubled in the past few years, according to WalletHub's latest Mortgage Insurance Report. Now, consumers can save up to $12,000 in just the first five years of having their loan by opting for the combination of a conventional mortgage and private mortgage insurance rather than an FHA loan. More and more consumers will wake up to the realities of this tradeoff as the real estate market improves, which should drastically increase the popularity of PMI.

More information on the credit predictions is at CardHub.