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Giving Yourself the Gift of Miles

Rewards Fiends Discover Easy Way to Get Thousands of Frequent-Flier Points

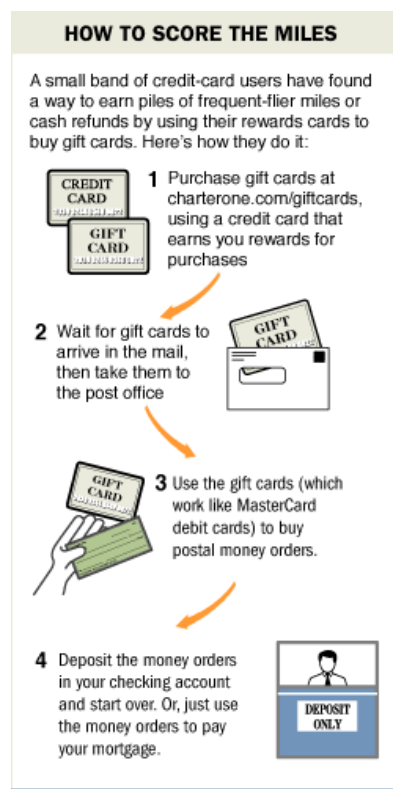
By [RON LIEBER](#) | Staff Reporter of [THE WALL STREET JOURNAL](#)

There's a hot new gift card out there that comes with an extra present: tons of frequent-flier miles.

In recent months, a small band of people eager to pile up miles or cash refunds from using their credit cards have figured out a clever way to quickly collect rewards. They're using credit cards that earn rewards to buy thousands of dollars of MasterCard gift cards sold by [Charter One Financial](#), a Cleveland-based bank that is trying to make a splash in the gift-card market.

The gift cards, which are preloaded with money, are accepted anywhere regular debit cards work. So people "give" the gift cards to themselves and then find ways to use them.

One way people are using the gift cards is to buy money orders at the post office or Wal-Mart and then deposit them into their bank accounts. They can then use that money to pay their credit-card bill, and start the process over again. There's also the potential to use the money orders to make mortgage payments, which would allow consumers to indirectly earn miles on the biggest bill many of them pay each month. Earning miles for mortgage payments has long been the holy grail for many miles-mad consumers, who yearn for free flights and first-class upgrades.



Charter One's gift cards have proved incredibly popular. The bank sold more than 600,000 gift cards in November and December alone, for a total of about \$40 million. Mark Grossi, the company's chief retail banking officer, believes Charter One sold more gift cards than any other bank in that period.

The success of the gift-card program -- both with everyday consumers and with rewards-seekers -- is due in part to its fee structure. Unlike most other banks that issue gift cards, Charter One doesn't levy any shipping charges or other upfront fees. Some other banks charge more than \$10 in fees for a gift card on top of the actual amount loaded onto the card. Such fees offset the value of the rewards consumers earn. "It makes us the place to go for gift cards" and gives the bank a marketing boost with its other products, Mr. Grossi says.

Possible Snag

In the past, other banks have shut down similar avenues for earning miles after they discovered that mileage fanatics were racking up rewards. But Charter One says it has no intention of doing that. For one, the bank says it isn't paying for all these miles. Instead, it's the credit-card companies who issued the mile fanatics' reward cards that ultimately end up with the bill.

One possible snag has emerged. The bank recently put a \$5,000 lifetime cap in place for people who bought cards repeatedly. But last week, Mr. Grossi said that consumers purchasing \$5,000 or so in gift cards each month shouldn't have any problems, even though a cap of some sort is theoretically in place. Indeed, The Wall Street Journal in recent days purchased \$7,500 in gift cards without encountering any roadblocks.

On Monday, Charter One said in an e-mailed statement that it has "implemented policies and actions to limit the number of Gift Cards and/or dollar amount of Gift Cards that an individual could order" online. It's also possible to purchase gift cards on the phone and at a bank branch.

A Lucrative Business

Banks are increasingly targeting the lucrative gift-card market. Last year, consumers spent \$690 million on gift cards from Visa USA, MasterCard International, [American Express](#) and [Morgan Stanley's Discover unit](#), according to the Nilson Report, a newsletter that tracks consumer-payments systems.

Though it was retailers that first popularized gift cards pre-loaded with money to spend on things like clothing and music, banks have picked up on the trend more recently. The banks can make money off the cards by charging fees when people buy the cards, use them at ATMs, or even when they don't use them enough; many banks charge inactivity fees, which are automatically subtracted from the balance when consumers let their cards sit around for too long.

While Charter One has no further plans to try to stymie the rewards seekers, at least one credit-card issuer has already cracked down. American Express in recent weeks has started to code Charter One gift-card purchases in a new way. They now count as cash advances, which can trigger additional fees and interest. Those fees can outweigh any rewards earned. American Express, like other card issuers, has to pay for every reward it gives to its cardholders, whether it's cash back or airline miles.

Triggering a Fraud Alert

If Visa and MasterCard issuers were to follow suit, the deal could end quickly. Many people buying the gift cards with credit cards are using Citibank plastic that offers a promotional rate of 5% cash back on purchases. A Citibank spokeswoman says that the bank doesn't plan to block gift-card purchasers from earning points at this time.

There are a couple of pitfalls to watch out for if you plan to try this method of earning more credit- or debit-card rewards. Repeatedly purchasing gift cards is likely to cause a fraud alert to go out on your card that could temporarily disable it. Just call your card company if this happens and tell the representative that you're buying bunches of gift cards and might do so again in the future. The issuer should be able to turn the fraud alert off.

Also, in the event that your card issuer quietly changes the coding for a Charter One gift-card purchase from "purchase" to "cash advance," you could get hit with fees and interest for using the cash-advance feature on your card.

You may be able to protect yourself from this, however, by calling your card company before they do this and telling them you want to disable the option to use the card for any cash advances.

That's what Nirlay Kundu did. The Sudbury, Mass., financial consultant simply called Citibank and lowered his cash-advance limit to zero. "You should be very careful," he says. "This way, if Visa or MasterCard decided to curtail this deal, I wouldn't be able to buy the gift card at all."

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