No wonder banks are having problems with credit cards

It's no secret that lenders have been frantically scaling back consumer credit since the onset of the financial crisis. Since the fourth quarter 2008 through February of this year, revolving consumer credit outstanding has been cut by more than 13 percent, according to Federal Reserve data.

But now that the economy has begun growing again and the new credit card laws are in effect, banks need to start figuring out how to make money through their once massively profitable credit card operations.

Of course, they need to be more careful this time around. Credit got a bit too loose, to say the least.

So how are banks going to do this? According to an article on Monday in American Banker, they're going back to their old friends, the credit bureaus. But this time they want some more information. This time - and you're not going to believe this - they want to know about a person's ability to actually pay back what they borrow.

American Banker writes: "The dubious marketing and underwriting processes of the past decade largely overlooked borrowers' capacity to pay and their capital - two of the textbook ‘three C's of credit.' Traditionally, credit reports and scores only reflected the third C: character."

That's right. Banks, at least when it came to credit cards, were a little more Bailey Building and Loan than you'd think. They would look a man or woman in the eye (their eye being their credit score) and judge them on their character.

But that's changing. As the president of American Home Bank in Mountville, Penn., told American Banker, borrowers' income and assets are "going to be more of an indication of their ability to repay than just the credit report."

This information won't necessarily be used as a determinant in whether an application is approved or rejected. Rather, lenders want it to figure out whom to market to.

Still, the credit bureaus are pretty limited in their ability to provide this information, despite their efforts. They're developing and tapping into databases to find individuals and create models to give lenders a picture of average household wealth in a particular zip code.

But, if a recent, personal experience is any indication, the information and snapshot they have for a person is pretty lousy: When I ran my annual credit report last month, the most recent employment Equifax had for me is a job I haven't held in 10 years.

I fear sounder credit card underwriting still has a ways to go.