

**OPENING STATEMENT OF CHAIRMAN CHRIS DODD - HEARING TO EXAMINE THE BILLING, MARKETING, AND DISCLOSURE PRACTICES OF THE CREDIT CARD INDUSTRY, AND THEIR IMPACT ON CONSUMERS**

**Jan 25, 2007** - - Today is the first in a series of hearings on a subject matter that I believe is of critical importance -- credit cards. It is my hope that through these hearings this Committee, in a careful, thorough and open manner, will begin to examine both the positive and negative impacts that this important financial tool plays in the lives of millions of American consumers and our nation's economy.

It is my hope that this hearing entitled: Examining the Billing, Marketing, and Disclosure Practices of the Credit Card Industry, and Their Impact on Consumers, will help us to better understand the many complex issues regarding credit card practices. A number of members of this Committee have a strong interest in this matter, and I encourage their active participation today.

At the outset of this hearing, let me say this about credit cards: I support them. I strongly believe in the product and its potential to give consumers greater convenience and access to capital.

I oppose any efforts to ban their use. They are an important component of a financial services industry that is the most dynamic and innovative in the world.

And I support the notion that consumers must share the responsibility to better in understanding the terms and conditions of their card agreements, and take personal responsibility for their financial decisions.

But I would like to put the credit card industry, issuing banks and card associations on notice. If you currently engage in any business practice that you would be ashamed to discuss before this Committee, I would strongly encourage you to cease and desist that practice. Irrespective of the current legality of such practices, you should take a long, hard look at how you treat your customers, both in the short term and the long term.

Credit card use has grown dramatically over recent years. Over 640 million credit cards issued by more than 6000 credit card issuers are currently in circulation. Between 1980 and 2005, the amount that American consumers charged to their cards grew from an estimated \$69 billion per year to more than \$1.8 trillion.

Credit cards have played an important role in supporting entrepreneurship, and helped to provide consumers in building credit histories. But in far too many instances, in my view, they can harm, not help, a consumers' ability to move up the economic ladder.

I would like to outline a few of my concerns regarding credit cards that I believe this Committee must examine:

One of the trends that greatly troubles me is the exponential rise in consumer debt and the role that credit cards have played as part of that trend.

The present level of credit card debt in the United States is at record heights. Total consumer debt in America is nearly \$2.4 trillion. Out of that, \$872 billion is revolving debt, which is essentially credit card debt. The average American household has over \$9,300 worth of credit card debt. Let me repeat that. The average family living in the United States has over \$9,300 of credit card debt. In comparison, the median household income was about \$46,000 in 2005.

Additionally, Americans have never paid more in interest, paying nearly 15 percent of their disposable income on interest payments alone, despite the current historically low interest rate environment.

Another area which I believe deserves examination is the massive increase and targeting of credit card solicitations. According to the Federal Reserve, an estimated 6.05 billion direct mail solicitations were sent by credit card issuers in 2005 alone.

Many of the solicitations target students, persons currently on the economic edge, senior citizens on fixed incomes, and persons who have recently had their debts discharged in bankruptcy. I have long believed that we have an added responsibility to protect the most vulnerable in our society – and I believe that examining the targeting of these groups is critically important.

I also have concerns with the amount, type, and disclosure of certain fees imposed on consumers. Over the past 2 years alone, the amount of money generated by credit card fees has simply skyrocketed. In fact, the term "skyrocketed" may be something of an understatement.

Banks are expected to collect a record \$17.1 billion from credit card penalty fees from 2006, a 15.5% rise from 2004 (according to R.K. Hammer, a bank-advisory firm, as cited in USA Today). This is a tenfold increase from 1996, when card companies raised \$1.7 billion in revenues from fees.

We need to take a close look at these fees and how they fundamentally impact consumers.

We must closely examine the current disclosure regime. The current system of disclosure is outdated, has not kept pace with the variety of credit card practices, and consumers have little understanding of the terms and conditions of their credit card contracts. Despite the significant work of many– including a number of the members of this Committee-- to provide consumers with clear, understandable, and consistent information, consumers are increasingly becoming confused and intimidated.

The Truth-in-Lending Act is the primary federal law pertaining to the extension of consumer credit. TILA and Regulation Z, which implements the Act, require creditors offering open-ended credit plans, such as credit card accounts, to disclose costs and other terms.

The purpose of the Act is (i) “to assure a meaningful disclosure of credit terms so that the consumer will be able to compare more readily the various credit terms available to him in the marketplace and avoid the uninformed use of credit; and (ii) “to protect the consumer against inaccurate and unfair credit billing and credit card practices.”

The Federal Reserve is currently conducting a review of the open end credit rules of Regulation Z, and it is my hope that the review results in greater clarity and comprehensibility for consumers.

In addition, the OCC issued an advisory letter in September 2004 to alert national banks to the agency’s concerns regarding certain credit card marketing and account management practices. The OCC’s letter outlines three credit card practices that “may entail unfair or deceptive acts or practices and may expose a bank to compliance and reputation risks. While the OCC has deemed these practices “unfair and deceptive,” the agency has to this point declined to prohibit them. With the increase in the pervasiveness of credit cards and the number of consumers who utilize them, the OCC in my view should recommit itself to protecting consumers.

We must redouble our efforts to ensure that consumers have a complete and accurate understanding of the deals they enter into with credit card issuers. Examining the law and regulations that protect consumers will be an important topic for this Committee.

Additionally, there are many card practices that the American public has raised significant concerns with – not simply with the disclosure of – but the underlying rationale justifying them. For example, double cycle billing, universal default and the methodology of penalty increases in interest rates, and the issuance of multiple low limit cards with exorbitant fees are just some of the controversial practices that are pervasive in the industry.

“Caveat Emptor” or “Buyer Beware” should not be used to defend the myriad of confusing, misleading and in some cases predatory practices which have become standard operating procedure for some in the credit card industry.

And lastly, I would be remiss if I did not mention one issue likely not to be explored today-- credit card interchange fees. These fees are imposed on merchants and consumers by banks and card associations when a credit or debit card is used to pay for a purchase. Interchange fees are growing exponentially– and the costs associated with these fees are expected to be between \$30 and \$40 billion this year alone. These opaque fees, assessed on merchants, are passed on, in part or whole, to consumers who have no knowledge or understanding that a fee is even a part of the cost of bread or milk, or any other consumer product.

I believe that this is another area that this Committee should examine as part of the series of hearings on credit cards.

With that, I would like to introduce the witnesses before the Committee.

The assembled witnesses today represent a broad diversity of views on the subject matter.

I would like to welcome:

Elizabeth Warren is the Leo Gottlieb Professor of Law at Harvard Law School and the author of “The Two-Income Trap: Why Middle Class Mothers and Fathers Are Going Broke.” The National Law Journal named her one of the Fifty Most Influential Women Lawyers in America and Harvard students voted her the Sacks and Freund Award for teaching excellence. We welcome you to the Committee.

John Finneran is the President of Corporate Reputation and Governance for CapitalOne Financial, in McLean, Virginia. We welcome you to the Committee.

Robert Manning is Research Professor and Director of the Center for Consumer Financial Services at Rochester Institute of Technology and author of the widely acclaimed book, “Credit Card Nation.” Dr. Manning’s research is regularly cited and quoted in major publications and he has testified frequently on Capitol Hill, including on this Committee. We welcome you back.

Carter Franke is the Executive Vice President of Marketing for JP Morgan Chase & Co., whose credit card operation is based in Wilmington, Delaware. You have testified previously before the Committee in our 2005 hearing on this issue, and we welcome you back.

Michael Donovan, founding member of the firm Donovan Searles, has litigated in a number of very significant consumer justice cases, including cases in front of the United States Supreme Court, the New Jersey Supreme Court, and the U.S. Court of Appeals for the Third Circuit. We welcome you to the Committee.

Richard Vague is the Chief Executive Officer of Barclaycard US, also based in Wilmington, Delaware. We welcome you to the Committee.

Tamara Draut is the Director of Economic Opportunity Programs at Demos, a public policy center based in New York and the author of “Strapped: Why America’s 20- and 30- Somethings Can’t Get Ahead.” Her research is often cited in major U.S. publications and she frequently comments on television news magazines and programs. We welcome you to the Committee.

Travis Plunkett is the Legislative Director of the Consumer Federation of America here in Washington. The Consumer Federation of America is a non-profit association of 300 organizations. He is a regular witness on this Committee and we welcome him back.

I would like to recognize Senator Shelby for his opening remarks