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TESTIMONY OF TAMARA DRAUT, DIRECTOR OF THE ECONOMIC OPPORTUNITY PROGRAM, DĒMOS

Before the United States Senate Committee on Banking, Housing and Urban Affairs

"Examining the Billing, Marketing, and Disclosure Practices of the Credit Card Industry, and Their Impact on Consumers"

January 25, 2007

Chairman Dodd and Ranking Member Shelby, thank you for the opportunity to testify today on issues facing households in credit card debt. I am here representing Dēmos, a nonprofit, nonpartisan research and public policy organization working on issues related to economic security. Over the last several years, Dēmos has produced several research studies on the growth of credit card debt and possible factors driving the rapid rise in credit card debt among the entire population as well as certain sub-groups. Our concern with the growth in unsecured debt was borne out of overarching interest in the state of family economic well-being in the midst of a changing economy. Our research points to an increased reliance on credit cards as a way families have coped with rising basic household costs in the face of slow or stagnant income growth. The rise in credit card debt, however, also raises additional concerns about the ability for families to build assets and savings, particularly as high interest rates and fees are siphoning additional money out of the family paycheck. In researching and documenting the rise in credit card debt, Dēmos became aware of the role that credit card industry practices play

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in the ability of indebted families to pay down their credit card debt and get back on the path to financial stability.

Many consumer organizations have long been concerned with the widespread use of abusive lending practices by credit card companies and other lending institutions. Dēmos applauds the work of the Consumer Federation of America, US PIRG, the National Consumer Law Center, and many others for their vigorous championing of reforms to protect consumers. Dēmos seeks to add to this perspective how the growth in credit card debt threatens family economic well-being and, by extension, the consumer-driven economy at large. During my testimony, I will specifically address the following issues related to credit card debt and industry practices:

1) Trends in credit card debt among households, highlighting groups of the population that are particularly strained by rising debt such as low- to middle-class households; seniors, and young adults;
2) The rise in fees and interest rates charged by card companies after two Supreme Court cases which resulted in the deregulation of the credit card industry;
3) The capricious use of penalty rates and fees that result in a cardholder's interest rate doubling or tripling, including the practice of raising a cardholder's interest rate due to payment history with other credit accounts (commonly known as universal default); and

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4) The application of interest rate changes retroactively, which results in consumers paying off their purchases at a rate different from the one in which they based their purchasing decisions under; and

The Growth of Credit Card Debt

Between 1990 and 2001, revolving consumer debt in America more than doubled, from $238 billion to $692 billion. Credit card debt continued to rise in the new century--increasing by 7.2 percent from $703.9 in 2001 to $754.8 billion in 2004. The savings rate has steadily declined, and the number of people filing for bankruptcy since 1990 has more than doubled to just over 2 million in 2005.[1] As a result of rising credit card debt, each year more children now suffer through a parent's bankruptcy than through a divorce.[2] Despite record levels of mortgage refinancing, historic low interest rates, and unprecedented appreciation of home values, household debt service burdens have reached record highs. By the third quarter of 2006, household debt payments represented 14.49 percent of disposable income, according to data from the Federal Reserve.[3] The financial obligations ratio, which provides a more accurate snapshot of household burdens of Americans, is at a record 18.5 percent.

[1] American Bankruptcy Institute. "U.S. Bankruptcy Filings 1980-2005."
[2] Elizabeth Warren and Amelia Warren Tyagi. *The Two-Income Trap: Why Middle Class Mothers and Fathers are Going Broke*. (New York: Basic Books) 2004.
[3] Federal Reserve Board, available online at http://www.federalreserve.gov/Releases/housedebt.

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These aggregate level trends illustrate that American households are accumulating increasingly higher amounts of credit card debt, with rising numbers suffering a total financial collapse. To better understand how these aggregate trends have played out at the household level, Dēmos has researched credit card debt trends among various demographic groups using data from the Federal Reserve Board's Survey of Consumer Finances (SCF) and by commissioning a national household survey of families with credit card debt.

My testimony today highlights only a few key findings. For complete details on the growth of debt please see Dēmos reports, *Borrowing to Stay Healthy: How Credit Card Debt is Related to Medical Expenses; The Plastic Safety Net: The Reality Behind Debt in America; Borrowing to Make Ends Meet: The Growth of Credit Card Debt in the 1990s* and *Retiring in the Red: The Growth of Debt Among Older Americans*. They are available on our website, www.Dēmos.org.

Major Trends in Credit Card Debt, 1989-2004

Our research has found that four groups have experienced the most rapid rise in credit card debt since 1989. These four groups are senior citizens, adults under age 34, and low- and moderate-income households. As Table 1, illustrates, the average amount of credit card debt among all households with credit card debt grew 89 percent between 1989 and 2004. The average self-reported balance of indebted households was $5,219 in 2004. It is important to note that the SCF data are based on self-reported amounts of debt

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by respondents, and there is evidence that consumers tend to underestimate their credit card debt.

Table 1. Prevalence of Debt and Average Amount of Debt, by Income Group (2004Dollars)

Family income group	Families holding credit cards in 2004	Cardholders reporting debt in 2004	Average credit card debt in 2004	Percent increase in debt 1989-2004
All Families	75%	58%	$5,219	89%
< $10,000	36%	65%	$2,750	77%
$10,000 - $24,999	53%	59%	$3,378	121%
$25,000 - $49,999	75%	65%	$4,831	95%
$50,000 - $99,999	92%	58%	$4,667	63%
$100,000 or more	98%	46%	$7,691	31%

Dēmos' Calculations using 1989. 1992, 1995, 1998, 2001 and 2004 Survey of Consumer Finances

Credit Card Debt Among Different Income Groups. American families across all income groups rapidly accumulated credit card debt in the 1990s. According to the Survey of Consumer Finances, three-quarters of American families hold credit cards, with 58 percent of cardholders carrying debt on their cards. The growth of credit card debt over the last decade was not evenly distributed among income groups. As Table 1 shows, the greatest growth in credit card debt occurred among low- to moderate-income households. Among the low-income households (annual incomes between $10,000 and $24,999) credit card debt grew 121 percent between 1989 and 2004, to an average of $3,378.

The second-highest increase was among moderate-income households (incomes between $25,000 and $49,999), rising by 95 percent to $4,831 in 2004.

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Credit Card Debt by Race/Ethnicity. When we examine credit card debt trends by race/ethnicity, two important findings emerge. First, both Black and Hispanic households are less likely to have credit cards than are White Households. Second, both Black and Hispanic cardholders are more likely to be in debt than their White cardholding counterparts (Table 2).

Table 2. Prevalence of Debt and Average Amount of Debt, by Race/Ethnicity. (2004 dollars)

Race/Ethnicity	Percent holding credit cards in 2004	Percent cardholders reporting debt in 2004	Average debt in 2004
All Families	75%	58%	$4,126
White Families	82%	54%	$5,631
Black Families	52%	84%	$3,379
Hispanic Families	54%	79%	$3,838

Dēmos' calculations using 1989, 1992, 1995, 1998, 2001 and 2004 Survey of Consumer Finances

Credit Card Debt Among Older Americans. Dēmos' report *Retiring in the Red* documented dramatic increases in the amount of credit card debt among older Americans. Roughly three out of every four Americans over 65 hold credit cards. Of these cardholders, slightly more than one in three (35 percent) carried debt in 2004, up from 29 percent in 1989. While the percentage of indebted cardholders increased only slightly, the amount of debt carried by older Americans grew precipitously. Average revolving balances among indebted seniors over 65 increased by 193 percent from 1989 to 2004, from $1,669 to $4,906 (in 2004 dollars).

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Credit Card Debt Among Young Adults. In *Generation Debt*, part of Dēmos' six-part series on the economic challenges confronting young adults, we examine trends in credit card debt among young Americans as they try to establish their careers, start families and buy homes. The average credit card debt of Americans aged 25 to 34 years old increased by 51 percent between 1989 and 2004, to a self-reported household average of $4,358. According to the Survey of Consumer Finances, nearly 2 out of 3 young Americans aged 25 to 34 have one or more credit cards, a level basically unchanged since 1989. Compared to the population as a whole, however, young adult cardholders are much more likely to be in debt: 68 percent of young adult cardholders revolve their balances, compared to 58 percent of all cardholders.

The percentage of credit card indebted young households experiencing debt hardship has grown considerably—22 percent of young Americans experienced debt hardship in 2004—up from 12 percent in 1989.

The Plastic Safety Net: Findings from Dēmos' National Survey of Low- and Middle-Income Households

The rapid rise in debt among American households over the last decade is well documented, but it is not well understood. Existing data sources tracking debt, such as the Federal Reserve Board's triennial Survey of Consumer Finances, provide only a limited picture of household indebtedness. Existing data sources don't answer basic questions about household credit card debt, including how long the average household has been in debt and what types of purchases led to outstanding balances. To better understand the

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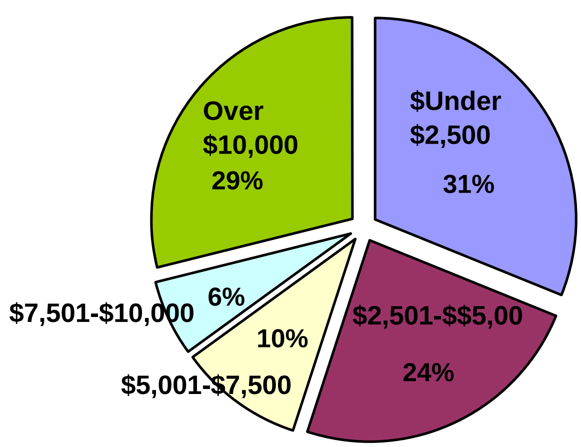
factors contributing to household indebtedness, Dēmos along with the Center for Responsible Lending commissioned a national household survey of households with credit card debt. The survey, conducted in March 2005 by ORC Macro, consisted of 1,150 phone interviews with low- and middle-income households whose incomes fell between 50 percent and 120 percent of local median income—roughly half of all households in the country. In order to participate, a household had to have credit card debt for three months or longer at the time of the survey.

This survey (full findings available in *The Plastic Safety Net*) reveals that the average low- to middle-income household has been in credit card debt for three and half years, and are carrying credit card debt average $8,650. One-third of these households has credit card debt over $10,000, while another third has credit card debt lower than $2,500. (See Chart 1).

Chart 1. Percent of Households by Level of Credit Card Debt



The majority of low- to middle-income indebted households (59 percent) had been in credit debt for longer than one year. The duration of credit card debt did not vary much across demographic groups, though not surprisingly, households with higher levels of credit card debt were more likely to have been in debt for longer than a year: 75 percent for those with credit card debt higher than $5,000 compared to 39 percent for those with less than $2,500 in credit card debt.

For 45 percent of households, the amount of credit card debt they had at the time of the survey was less than it was three years ago, while 42 percent of households reported their debt was more than it was three years ago. But regardless of whether their current credit card debt was higher or lower than three years before, nearly half of households (47 percent) reported having swings in the level of credit card debt—that is, after periods of paying down their debt, events happened that caused them to run up the debt again. This finding makes sense given the increased volatility in the income of U.S. middle-income households; the average annual income swing of almost $13,500 has doubled since the 1970s.[4] Among the remaining households, 17 percent reported having "a high level of credit card debt for a long time," and 20 percent reported this being "the first time their credit card debt was this high" at the time of the survey. Another 13 percent said that they were carrying debt to build up their credit score.

[4] Peter G. Gosselin, *The New Deal: If America is Richer, Why Are Its Families Much Less Secure?,* Los Angeles Times (October 10, 2004).

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Factors Contributing To Credit Card Debt. The survey asked a series of questions about what types of expenses in the past year had contributed to the households' current level of credit card debt (see Table 2). **Seven out of 10 low- and middle-income households reported using their credit cards as a safety net—relying on credit cards to pay for car repairs, basic living expenses, medical expenses or house repairs.** Only 12 percent of households did not report any type of safety net usage, which may indicate a relatively low percentage of credit card debtors who use credit to "live beyond their means," purchasing items that are not critical or necessary.

Table 3: In the past year, please tell me if the following items have contributed to your current level of credit card debt, or not.

	Yes %	No %
Car repairs	48	52
Home repairs	38	63
A major household appliance purchase	34	66
Basic living expenses such as rent, groceries, utilities	33	67
An illness or necessary medical expense	29	71
A layoff or the loss of a job	25	75
Tuition or expenses for college for a child, a spouse or partner, or yourself	21	79
Money given to other family members, or used to pay the debts of other family members	19	81
Tuition or other school-related expenses for a child who is of high school age or younger	12	88
Percent Who Answered Yes		
To none of these expenses:	12	
To one or more	88	
To two or more	71	

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To three or more	48
To four or more:	28

In addition to asking about specific types of expenses, the survey also asked households whether they had used credit cards in the past year to pay for basic living expenses, such as rent, mortgage payments, groceries, utilities or insurance, because they did not have money in their checking or savings account. **One out of three households reported using credit cards in this way—reporting that they relied on credit cards to cover basic living expenses on average four out of the last 12 months**. Households that reported losing a job sometime in the last three years and being unemployed for at least two months, as well as households who had been without health insurance in the last three years, were almost twice as likely to use credit cards to pay for basic living expenses. Not surprisingly, households who needed to use credit for their basic living expenses had lower level of savings and higher credit card balances than households who did not use credit cards to pay for their basic expenses.

The Role of Medical Expenses in Credit Card Debt. Households in our survey that reported medical expenses as a factor in their credit card debt had higher levels of credit card debt than those who did not cite medical expenses as contributing to their credit card debt. Overall in the survey, 29 percent of indebted low- and middle-income households reported that medical expenses contributed to their current level of credit card debt. Within that group, 70 percent had a major medical expense in the previous three years.

Overall, 20 percent of indebted low- and middle-income households reported both having a major medical expense in the previous three years and that medical expenses contributed to their current level of credit card debt. Within this "medically indebted" group,

- Forty-three percent had credit card debt over $10,000 and 56 percent had credit card debt higher than $5,000.
- Average credit card debt was 46 percent higher ($11,623) than for low- and middle-income indebted households without a major medical expense or medical expenses contributing to their credit card debt ($7,964).
- Average credit card debt was 32 percent higher for those without health insurance ($14,512) than for those with health insurance ($11,006).
- Average credit card debt was 20 percent higher for households with children ($12,840) than for those without children ($10,669).
- Sixty-two percent have been called by bill collectors, as compared to 38 percent of indebted households without such medical expenses.

Compared to other age groups, young adults had the highest level of average credit card debt, and the percent increase in debt for medically-indebted versus non-medically indebted people was greatest among young adults. Average credit card debt was 79 percent higher among medically indebted low- and middle-income Americans between the ages of 18 and 34 than for non-medically indebted 18 to 34 year-olds. ($13,303 versus $7,450).

The Role of Industry Practices

The availability of credit to weather economic shortfalls can be beneficial for households. Using revolving credit to pay off large expenses such as car repairs allows families to spread the payments out over several months, providing less disruption to the monthly family budget. Using credit to supplement a family's income during a job loss can help ensure the family stays afloat, allowing them to allocate precious financial resources to maintaining mortgage and rent payments.

Unfortunately, as households have become more reliant on credit cards to make ends meet as a result of greater instability in the economy and rising costs, the credit card industry has engaged in several practices that make it extremely difficult for indebted families to pay down their debt. The rest of my testimony will examine the changing practices of the industry and the deregulation that helped fuel the widespread exploitative practices used by lenders today.

Deregulation and Changes in Industry Practices

Beginning in the late 1970s, the banking and financial industry has been steadily deregulated. For consumers, this wave of deregulation has been a mixed blessing. It has expanded the availability of credit to many consumers formerly denied access to credit, but at a very high cost. This high cost, the result of finance charges, penalty fees, and increased credit lines, helped usher in the decade of debt.

Deregulation of the industry began with a Supreme Court ruling in 1978. In *Marquette National Bank of Minneapolis v. First Omaha Service Corp* (hereafter *Marquette*) the Court ruled that Section 85 of the National Banking Act of 1864 allowed a national bank to charge its credit card customers the highest interest rate permitted in

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the bank's home state—as opposed to the rate in the state where the customer resides.[5] As a result, regional and national banks moved their operations to more lender-friendly states, such as South Dakota and Delaware, where there were no usury ceilings on credit card interest rates. In domino-like fashion, states began loosening their own usury laws. Today, 29 states have no limit on credit card interest rates.[6]

As a result of *Marquette*, credit card companies that are located in states without usury laws and without interest rate caps—all the major issuers—can charge any interest rate they wish, as long as they comply with consumer disclosure rules. The effect of this ruling had tremendous impact on the growth of the credit card industry and its profitability. Before *Marquette*, complying with 50 different state laws represented a high cost burden for the credit card companies. The *Marquette* decision allowed banks to nationalize credit card lending and take full advantage of the ease of centralized processing provided by the Visa and MasterCard systems. As a result, credit cards, which were once the province of the wealthy and elite business class, quickly became part of mainstream American culture. Riskier borrowers—often those on the lower end of the income distribution—were brought into the market, and lenders were able to charge higher interest rates to compensate for the increased risk.[7]

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[5] Vincent D. Rougeau, "Rediscovering Usury: An Argument for Legal Controls on Credit Card Interest Rates," *University of Colorado Law Review*, Winter 1996.
[6] Lucy Lazarony. "States with Credit Card Caps." Bankrate.com, March 20, 2002. <www.bankrate.com/brm/news/cc/20020320b.asp>
[7] David A. Moss and Johnson A. Gibbs, "The Rise of Consumer Bankruptcy: Evolution, Revolution or Both?," 1999 National Conference of Bankruptcy Judges, p 13.

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Credit card interest rates began to soar in the high-inflation post-*Marquette* environment, reaching averages of 18 percent, and have remained relatively high in comparison to drops in the federal funds rate (see Chart 2).[8] Several economists have remarked on the reasons why consumers continue to pay, and card companies continue to charge, exceptionally high interest rates. Some point to the high consumer transaction costs involved in switching,[9] while others point to a lack of competition in the credit card marketplace (market share by the top issuers has gone from 50 percent by the top 50 issuers the year before *Marquette*, to 78 percent by the top 10 issuers in 2002).[10] Whatever the reason, credit card companies did not lower their rates when inflation slowed and national interest rates came down. As a result, the card companies' "spread"—the amount charged above what it costs them to loan the funds—has remained consistently high, consistently at or above 10 percent over the last 15 years.

This trend has continued in the past decade, even as the federal funds rate and the prime rate dropped to historic lows. For example, in 2001 the Federal Reserve lowered rates eleven times, from 6.24 percent to 3.88 percent.[11] But these savings didn't get

[8] See *Federal Deposit Insurance Corporation (FDIC)*: Bank Trends – The Effect of Consumer Interest Rate Deregulation on Credit Card Volumes, Charge-Offs, and the Personal Bankruptcy Rate. *http://www.fdic.gov/bank/analytical/bank/bt_9805.html*. May 1998, p 8; David A. Moss and Johnson A. Gibbs, "The Rise of Consumer Bankruptcy: Evolution, Revolution or Both?," 1999 National Conference of Bankruptcy Judges, p 13.
[9] See Vincent D. Rougeau, "Rediscovering Usury: An Argument for Legal Controls on Credit Card Interest Rates," *University of Colorado Law Review*, Winter 1996.
[10] Robert D. Manning, *Credit Card Nation*: *The Consequences of America's Addiction to Credit,* (Basic Books: New York), 2000.
[11] Federal Reserve, Federal Funds Rate, Historical Data. Released April 28, 2003. http://www.federalreserve.gov/releases/h15/data/afedfund.txt

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passed on to consumers: during the same period, credit card rates declined only slightly from 15.71 percent to 14.89 percent.[12]

The rise in credit card debt during the 80s and 90s reveals how quickly this transformation occurred: In 1999 dollars, from 1980 to the end of 1999, credit card debt grew from $111 billion to nearly $600 billion.[13]

In the mid-1990s, further deregulation of the credit card industry again contributed to the increasing costs of credit for consumers. In 1996, the Supreme Court ruled in *Smiley vs. Citibank* that fees could be defined as "interest" for the purposes of regulation. As such, under the rules established by *Marquette*, the laws regulating fees were now to be determined by the state laws in which the bank was located. Prior to the ruling, the card companies were bound by the state laws of the customers' residence. Post-Smiley, credit card companies steadily raised the amount they charged in fees. For example, before Smiley late fees averaged $16. Now, it's typically $39.

Industry Practices that Penalize Responsible Debtors

There are several practices that I would like to bring to the attention of the Committee during my testimony. The lack of national regulations regarding fees and interest rates, and the hobbling of state enforcement of their own laws, has resulted in consumers being unprotected from excessive fees and interest rates. The following practices are employed by all the major issuers and cost families billions of extra dollars every year.

[12] US Census Bureau, *Statistical Abstract of the United States: 2002*, p 728.
[13] Robert D. Manning, *Credit Card Nation*: *The Consequences of America's Addiction to Credit,* (Basic Books: New York), 2000, pp 12-13. Figures adjusted to 1999 dollars.

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1. Rate hikes and fees for late payments

All the major issuers now raise a cardholder's interest rate to a "default rate" when their payment arrives late—often to 30 percent or even 34 percent. Late payment penalties affect millions of cardholders of all credit risk levels, as there is no longer a late payment grace period. A payment is considered "late" if it arrives after 1:00 or 2:00 on the specified due date. Issuers have also begun systematically mailing statements closer to the due date, giving customers less turn-around time. The new default rates are applied retroactively—rather than to all new purchases. In addition to raising the interest rate on the card, issuers also charge the consumer a late fee, now typically between $29 and $39.[14] According to one survey nearly 60% of consumers had been charged a late fee in the past year.[15] According to R.K. Hammer Investment Bankers, a California credit card consulting firm, banks collected $14.8 billion in penalty fees in 2004, or 10.9 percent of revenue, up from $10.7 billion, or 9 percent of revenue, in 2002, the first year the firm began to track penalty fees.

Congress should amend the Consumer Protection Act or the Truth in Lending Act to define the parameters of "late payment" to ensure consumers are being treated fairly and appropriately. A late payment grace period of 3 to 5 days would be reasonable and ensure responsible cardholders are not unduly penalized. Penalty rates should be limited to an amount above the original annual percentage rate no higher than 50 percent of the

[14] Ibid.
[15] Ibid.

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original rate. (E.g., if the original APR is 9 percent, the penalty rate cannot be above 13.5 percent.)

2. Universal Default Policies

Card issuers now routinely check their cardholders' credit reports and will raise the interest rate on the card if there has been a change in the consumer's score. Known in the industry as "universal default",," these "bait and switch" policies are little more than preemptive penalties levied toward responsible debtors. For example, if a Bank One Visa cardholder is late on their Citibank MasterCard, Bank One will now raise the cardholder's interest rate—even if that cardholder has never missed a payment with them. Interest rate increases can also be triggered when a cardholder's profile has changed due to the addition of new loans, such as a mortgage, car loan or other type of credit.[16] These universal default practices should be prohibited.

3. Retroactive Application of Interest Rate Changes

The practice of raising a cardholder's rate to a "default rate" for payments that arrive hours after a mail pick-up, or for activity with another creditor is made worse by the fact that the new higher rate is applied to the cardholder's *existing* balances. By applying the rate change to previous purchases, card companies are essentially changing the terms retroactively on consumers, and in essence, raising the price of every item or service purchased previously with the card. Take, for example, a cardholder who buys a new computer under the pretense that she will be paying back the price of the computer at the

[16] Amy C. Fleitas, "20 Sneaky Credit Card Tricks." Bankrate.com. www.bankrate.com/brm/news/cc/20021106a.asp.

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APR on her card at the time of purchase, which may be 9.99 percent. After one day-late payment on her account, the interest rate on her card is raised to 27.99 percent. As a result, this cardholder is now paying off the loan for her computer under drastically different terms than which she purchased the item. These severe default rates, levied even on customers who are paying their bills in good faith, if perhaps not in perfect time, constitute an enormous and undue increase in the cost and length of debt repayment for revolvers.

I have included in my testimony a copy of a credit card solicitation from Bank One. Like all standard agreements, the solicitation contains the following language:

> "We reserve the right to change the terms (including APRs) **at anytime for any reason**, in addition to APR increases which may occur for failure to comply with the terms of your account." [my emphasis]

In terms of a contract, consumers are already at an extreme disadvantage because the card the terms can be changed at any time.

Card companies should be held to the terms of the original contract for all purchases up to the initiated change. Any change made to the terms of the cardholder agreement in terms of increases in the annual percentage rate (or decreases if that may be the case) should be limited to future activity on the card.

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A bill introduced by Senator Dodd (S.499), The Credit CARD Act of 2005 provides for the prohibition of retroactive application of interest rates, among other sensible reforms. Similarly, a bill introduced by Senator Menendez (S. 2655) by prohibiting unilateral changes in terms would end retroactive application of price increases.

Conclusion

In the face of rising costs for essential goods and services, many families have turned to credit cards as a solution for maintaining living standards during periods of income loss or stagnation. The credit card companies have responded to the increased financial vulnerability of many American households by further strapping customers with a high-cost combination of "gotcha" penalty interest rates and fees. In absence of stronger federal regulations or industry-driven reforms, the levels of debt accumulated by American households in the past decade may very well prove unsustainable on a number of fronts. Industry practices that make it harder for indebted households to pay down balances in reasonable amounts of time threaten the health of U.S. households, the health of our consumer-driven economy, and eventually, the health of the consumer lending industry itself.

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Additional research available at:
www.demos.org

Attachment:

Credit Card Offer from Bank One for a Visa Card.

Dēmos
A NETWORK FOR IDEAS & ACTION

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Credit Card Offer
from Bank One (Visa)

RATE, FEE AND OTHER COST INFORMATION

LGC3040

Annual Percentage Rate (APR) for purchases (including balance transfers, excluding overdraft advances)	A 0% fixed APR until the first day of the billing cycle that includes 7/01/05. After that, 7.99% variable.[1]
Other APRs	Cash Advance APR: 19.99% variable Default rate: 24.99% variable. See explanation below.[2] Closed account rate: 24.99% variable. See explanation below.[3] Overdraft Advance APR: 13.99% fixed (not available in some states)
Variable rate information	The following APRs may vary monthly based on the Prime Rate:[4] Purchase APR equals the Prime Rate plus 3.99% after the introductory period, but not less than 7.49%. Cash advance APR equals the Prime Rate plus 15.99%, but not less than 19.99%. Default rate and closed account rate equal the Prime Rate plus up to 20.99%.[5]
Grace period for repayment of purchase balances	At least 20 days, but none for balance transfers, convenience checks, or overdraft advances, if applicable.
Method of computing the balance for purchases	Two-cycle average daily balance method (including new purchases).
Annual fee	None
Minimum finance charge	$1.00
Transaction fee for convenience checks	3% of the amount of each transaction, but not less than $5.00 nor more than $50.00.
Transaction fees for cash advances	ATM cash advances: 3% of the amount of the advance, but not less than $10.00. All other cash advances: 3% of the amount of the advance, but not less than $15.00.

Late Payment fee: $15.00 on balances up to but not including $250, $35.00 on balances of $250 and over. However, if you already have made one or more late payments in the prior 12 month period, $35.00 regardless of the amount of your balance. **Over-the-Credit-Limit fee:** $35.00

Language addressing change in terms

[1] You understand that the terms of your account, including the APRs, are subject to change. **This means that the APRs for this offer are not guaranteed; APRs may change to higher APRs, fixed APRs may change to variable APRs, or variable APRs may change to fixed APRs. We reserve the right to change the terms (including the APRs) at any time for any reason, in addition to APR increases that may occur for failure to comply with the terms of your account.** Any changes will be in accordance with your Cardmember Agreement.

[2] Your APRs may increase if you default under any Cardmember Agreement you have with us for any of the following reasons: we do not receive at least the minimum payment due by the date and time due as shown on your billing statement for any billing cycle in which a payment is owed, you exceed your credit line on this Account, you fail to make payment to another creditor when due, you make a payment to us that is not honored by your bank.

[3] If, at any time after your Account is closed, we demand immediate payment of your outstanding balance and we do not receive payment within the time we specify, we may increase your APRs on all balances up to the closed account rate stated above.

[4] The "Prime Rate" is the highest prime rate published in the Money Rates column of *The Wall Street Journal* two business days before the Closing Date on the statement for each billing period. Variable APRs above are based on the 4.00% prime rate on 4/22/04.

[5] We may consider the following factors to determine the default and closed account rate: the length of time your Account has been open, the existence, seriousness and timing of any defaults, and other indications of your Account usage and performance.

Transactions in Foreign Currency: Visa and MasterCard convert transactions in foreign currencies to U.S. dollars at a wholesale or government mandated rate. They add 1% to the amount. We add an additional 2% to the amount Visa or MasterCard provides to us.