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Before The Subcommittee on Financial Institutions and Consumer Credit

Regarding Financial Services Issues: A Consumer's Perspective

September 15, 2004

Chairman Bachus and Ranking Member Sanders, 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 two 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 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 seniors, young adults, and middle-class households;
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 or "bait-and-switch");
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
5) The lack of information provided to consumers about the length of time and interest cost of only making minimum payments.

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 1.6 million in 2003.[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. The financial obligations ratio, which provides a more accurate snapshot of household burdens of Americans, is at a record 18.5 percent. By the end of 2003, household debt had reached a record high 116 percent of income, according to data from the Federal Reserve.

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). The most recent available data is for 2001, which does not capture the full effects of the recession. Our research examines in credit card debt *among cardholders with credit card debt* – about 55 percent of cardholders in the 2001 survey. By excluding those families that do not have revolving (outstanding) balances on their credit cards, we can get a more accurate picture of the problem of credit card debt.

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[1] American Bankruptcy Institute. "U.S. Bankruptcy Filings 1980-2003."
[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.

My testimony today highlights only a few key findings. For complete details on the growth of debt please see Dēmos reports, *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.demos-usa.org .

Our research has found that four groups have experienced the most rapid rise in credit card debt since 1992. These four groups are senior citizens, adults under age 34, and low- and middle-income households. As Table 1, illustrates, the average amount of credit card debt among all households with credit card debt grew 53 percent between 1989 and 2001. The average self-reported balance of indebted households was $4,126 in 2001. It is important to note that the SCF data are based on self-reported amounts of debt by respondents. There is evidence that consumers tend to underestimate their credit card debt. This is suggested by comparing self-reported debt to aggregate figures reported by the Federal Reserve. For example, based on the total credit card debt outstanding in 2002 ($750.9 billion), the average household debt was $12,000 in 2002—roughly three times higher than that reported by families in the SCF survey.[3]

Table 1. Prevalence of Debt and Average Amount of Debt, by Income Group (2001 Dollars)

[3] The absolute figures (for example, $4,041 of average debt) are based on data that consumers reported about themselves in surveys. Aggregate data on outstanding revolving credit reported by the Federal Reserve puts the average credit card debt per household at about $12,000—nearly three times more than the self-reported amount.

Family income group	Families holding credit cards in 2001	Families reporting debt in 2001	Average credit card debt in 2001	Percent increase 1989-2001
All Families	76%	55%	$4,126	53%
< $10,000	35%	67%	$1,837	184%
$10,000 - $24,999	59%	59%	$2,245	42%
$25,000 - $49,999	80%	62%	$3,565	46%
$50,000 - $99,999	90%	56%	$5,031	75%
$100,000 or more	98%	37%	$7,136	28%

Dēmos' Calculations using 1989. 1992, 1995, 1998, and 2001 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 55% 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 very low-income and middle-income households. Among the lowest-income households (annual incomes less than $10,000) credit card debt grew 184 percent between 1989 and 2001, to an average of $1,837. The percentage of these families with debt also increased dramatically over the decade. In 1989, about 49 percent of very low-income cardholders had debt. By 2001, 59 percent reported credit card debt.

The second-highest increase was among middle-income households (incomes between $50,000 and $99,999), rising by 75 percent to $5,031 in 2001. The burden of credit card debt also shifted to a smaller percentage of middle-income families: the percentage of cardholders reporting credit card debt dropped from 64 percent in 1989 compared to 56 percent in 2001. In addition, the percentage of middle-income families with heavy debt burdens, that is total debt-to-income ratios greater than 40 percent, (including mortgage debt) nearly tripled from 6 percent of families in 1989 to 16.3 percent in 2001.

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).

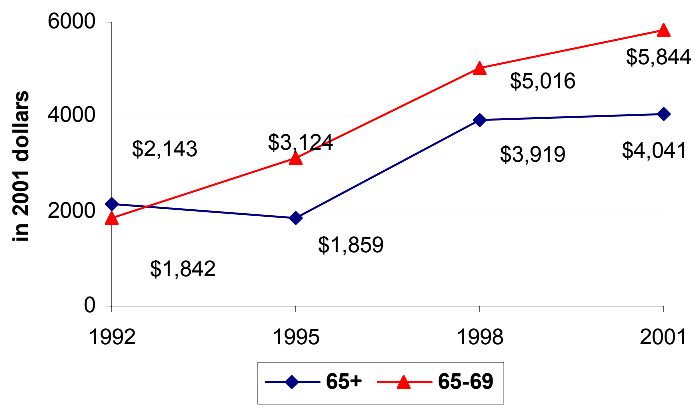
Table 2. Prevalence of Debt and Average Amount of Debt, by Race/Ethnicity. (2001 dollars)

Race/Ethnicity	Percent holding credit cards in 2001	Percent reporting debt in 2001	Average debt in 2001
All Families	76%	55%	$4,126
White Families	82%	51%	$4,381
Black Families	59%	84%	$2,950
Hispanic Families	53%	75%	$3,691

Dēmos' calculations using 1989, 1992, 1995, 1998, and 2001 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, a portion that increased slightly between 1992 and 2001. Of these cardholders, nearly one in three carried debt in 2001, a marginal decrease from 1992. While the percentage of indebted cardholders declined slightly, the amount of debt carried by older Americans grew precipitously. As Chart 1 shows, average revolving balances among indebted seniors over 65 increased by 89 percent from 1992 to 2001, to $4,041. Seniors between 65 and 69 years old, presumably the newly-retired, saw the most staggering rise in credit card debt—217 percent—to an average of $5,844.

Chart 1. Average (mean) Credit Card Debt
Older American Households, 1992-2001



Source: Dēmos' calculation of the 1992, 1995, 1998, and 2001 Survey of Consumer Finances

The true financial impact of debt can be seen in the percentage of income people must spend servicing it. A family spending more than 40 percent of their income on debt payments, including mortgage debt, is in a state of *debt hardship*.

Overall, seniors spend on average less than a tenth of their income on debt payments; however, those in credit card debt bear an increasingly heavy burden. Among seniors with incomes under $50,000 (70 percent of seniors), Table 3 shows that about one in five families with credit card debt is in debt hardship.

Table 3. Percent of Credit Card Indebted Older Families in Debt Hardship (Debt to Income Ratio > 40%)

Older Household Income Group	1992	2001
$0 - $14,999	**14%**	**15%**
$15,000 - $29,999	**7%**	**18%**
$30,000 - $49,999	**9%**	**27%**
$50,000 or more	**9%**	**5%**

Source: Dēmos' Calculations from the 1992 and 2001 Survey of Consumer Finances

Credit Card Debt Among Young Adults. Finally, younger Americans, those aged 18-24 years old and 25-34 years old, experienced faster growth in debt than the average household. In a forthcoming report to be released by Dēmos, 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 55 percent between 1992 and 2001, to a self-reported household average of $4,088. This age group's bankruptcy rate grew by 19 percent over the same period—so that by 2001 nearly 12 out of every 1,000 young adults were filing for bankruptcy.[4] Young adults now have the second highest rate of bankruptcy, just after those aged 35 to 44. According to the Survey of Consumer Finances, nearly 7 out of 10 young Americans aged 25 to 34 have one or more credit cards, a level basically unchanged since 1992. Compared to the population as a whole, however, young adult cardholders are much more likely to be in debt: 71 percent of young adult cardholders revolve their balances, compared to 55 percent of all cardholders.

We found that 13 percent of young Americans experienced debt hardship in 2001—nearly double the percentage in 1992. Lowest-income young households are the most likely to be in debt hardship, but middle-income young adults are also experiencing higher levels of debt hardship. Young adults are having a harder time making payments, too. Nearly 1 out of 5 surveyed reported being late or missing payments within the last year on any loan, up from 1 out of every 6 in 1992.

The youngest Americans, those aged 18-24, more than doubled the amount of credit card debt they carried since 1992. Credit card debt among 18 to 24 year olds rose

[4] Teresa A. Sullivan, Deborah Thorne and Elizabeth Warren. "Young, Old, and In Between: Who Files for Bankruptcy?." *Norton Bankruptcy Law Advisor*, Issue No. 9A, September 2001.

by 104 percent, to an average of $2,985 in 2001. Although the Survey of Consumer Finances does not survey current students, it is very likely that the rise in the youngest adults' credit card debt is to some extent a result of rising credit card debt among college students. On-campus credit card marketing exploded during the 1990s, as creditors sought to saturate the youth market for the first time.[5] The co-branded college cards and student-conscious advertising and rewards programs were successful: in 2001, fully 83 percent of all undergraduates had at least one credit card, with the average student carrying four. Balances among college students have risen sharply over the last decade. Between 1990 and 1995, one survey found credit debt had shot up 134 percent, from $900 to $2,100.[6] In 2001, college seniors graduated with an average of $3,262 in credit card debt.[7]

Possible Factors Driving the Rise in Debt

While national survey research connecting the growth of debt to broader changes in the economy is unavailable, there is no question that many households are now turning to credit cards as a way to weather budget shortfalls. These shortfalls may be attributable to a range of factors, including job loss, medical illness, or divorce—the three leading precipitating factors to bankruptcy, according to the Consumer Bankruptcy Project. In addition, as low-to-middle-income households have experienced slow or stagnant wage growth, many are turning to credit cards as a way to deal with rising health care and

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[5] For a good discussion of campus marketing, see Robert R. Manning, *Credit Card Nation*, (Basic Books, New York) 2000.
[6] Robert R. Manning, *Credit Card Nation*, (Basic Books, New York) 2000, p.169 citing a study conducted by marketing research firm Claritas, Inc.
[7] Nellie Mae Corporation. "Undergraduate Students and Credit Cards: An Analysis of Usage Rates and Trends." April 2002.

housing costs. For a complete discussion of the economic trends that contribute to the use of credit, please see *Borrowing to Make Ends Meet* and *Retiring in the Red, both* available on the Dēmos website, www.demos-usa.org.

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 the bank's home state—as opposed to the rate in the state where the customer resides.[8] 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.[9]

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.[10]

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

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).[11] 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,[12] 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).[13] 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.[14] But these savings didn't get passed on to consumers: during the same period, credit card rates declined only slightly from 15.71 percent to 14.89 percent.[15]

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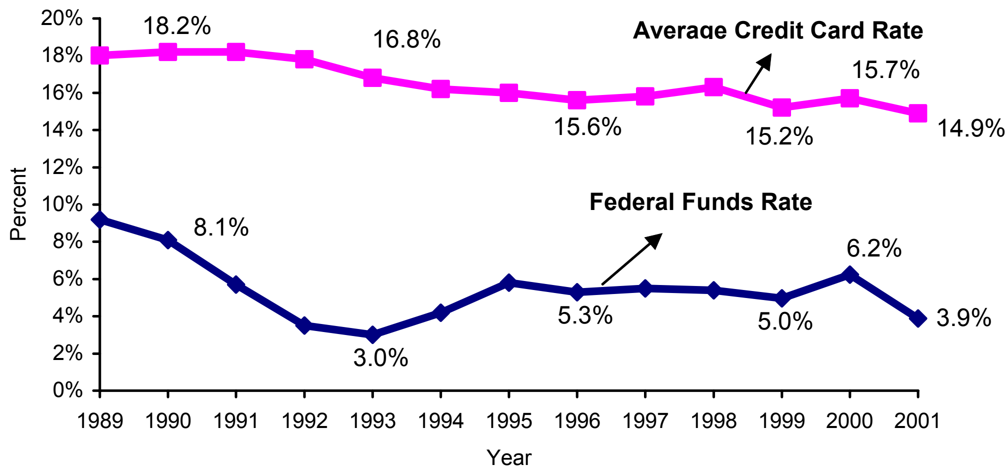
[11] See *Federal Deposit Insurance Corporation (FDIC)*: Bank Trends – The Effect of Consumer Interest Rate Deregulation on Credit Card Volumes, Charge-Offs, and the Personal Bankruptcy Rate. *http://www.fdic.gov/bank/analytical/bank/bt_9805.html*. May 1998, p 8; David A. Moss and Johnson A. Gibbs, "The Rise of Consumer Bankruptcy: Evolution, Revolution or Both?," 1999 National Conference of Bankruptcy Judges, p 13.
[12] See Vincent D. Rougeau, "Rediscovering Usury: An Argument for Legal Controls on Credit Card Interest Rates," *University of Colorado Law Review*, Winter 1996.
[13] Robert D. Manning, *Credit Card Nation*: *The Consequences of America's Addiction to Credit,* (Basic Books: New York), 2000.
[14] Federal Reserve, Federal Funds Rate, Historical Data. Released April 28, 2003. http://www.federalreserve.gov/releases/h15/data/afedfund.txt
[15] US Census Bureau, *Statistical Abstract of the United States: 2002*, p 728.

Chart 2. Federal funds rate and average credit card rates



Sources: The federal funds rate data is based on historical data from the Federal Reserve. Average credit card rates are from the US Census Bureau, *Statistical Abstract of the United States: 2002*, p. 728.

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.[16]

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.

[16] 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.

Post-Smiley, credit card companies steadily raised the amount they charged in fees. For example, before Smiley late fees averaged $16. Now, it's $32.[17]

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.

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 29 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.[18] According to one survey nearly 60% of consumers had been charged a late fee in the past year.[19]

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[17] Card Web. "Late Fee Bug," *CardTrak*, May 17, 2002; CardWeb. "Fee Revenues," *CardTrak*, July 9, 1999; Card Web. "Fee Escalation," June 18, 2003. www.cardweb.com.
[18] Ibid.
[19] Ibid.

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

2. "Bait and Switch" or 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 MBNA 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.[20] These universal default practices should be prohibited.

3. New Low Minimum Payment Requirements

Credit card companies have also lowered their minimum payment requirement from a standard 5 percent to only 2 or 3 percent of the outstanding balance.[21] This makes it

[20] Amy C. Fleitas, "20 Sneaky Credit Card Tricks." Bankrate.com. www.bankrate.com/brm/news/cc/20021106a.asp.
[21] Ibid. See also Consumer Federation of America, Press Release, "Credit Card Issuers Aggressively Expand Marketing And Lines Of Credit On Eve Of New Bankruptcy Restrictions, February 27, 2001.

easier for consumers to carry more debt each month. It also ensures more interest income for the card companies, as consumers who pay only the minimum will revolve their balances over a longer period of time. Most consumers are unaware of how much interest and how long it will take to pay off their debt when only paying the minimum payment.

Consumers should be informed in their monthly statement about the cost of only paying the minimum amount, as well as the length of time it would take to pay off balances of various sizes by making only the minimum payment. Additionally, the minimum payment requirement should be raised to 4 percent of the outstanding balance for all new cardholders.

Table 4. Amount of time and interest payments for selected credit card balances and interest rates

Credit Card Balance	Annual Interest Rate	Years to Payoff Credit Card Debt	Interest Cost
$5,000	15%	32	$7,789
$5,000	18%	46	$13,931
$8,000	15%	37	$12,790
$8,000	18%	50	$22,805
$10,000	15%	39	$16,122
$10,000	18%	50	$28,524

Most credit cards assume a minimum payment of 2 percent of the balance or $10, whichever is higher. Source: Dēmos' calculations

4. Retroactive Application of Higher Interest Rates

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 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.

Conclusion

In the face of rising costs for essential goods and services, many families have turned to credit cards as a socially acceptable 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.

Attachment:

Credit Card Offer from Bank One for a Visa Card.

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.