

**Testimony of Carter Franke**  
**House Committee on Financial Services**  
**Subcommittee on Financial Institutions and Consumer Credit**  
**March 13, 2008**

Madam Chairman, Members of the Committee, good morning. My name is Carter Franke; I am a senior vice president at JPMorgan Chase.

I am proud to represent, today, more than 20,000 Chase Card Service employees who serve the needs of more than 100 million Chase credit card relationships every day.

Chase believes that building solid customer relationships is the best approach to long-term success in the credit card or any industry, and we have worked to deepen those relationships for a number of years. This is our third appearance before Congress in the last 14 months, and we have listened carefully to the points of view that have been raised. More important, we have listened closely to our customers, and as a response to their needs and concerns, we have made changes in our practices to align with them.

Last year we articulated before Congress and in other venues our belief that the appropriate use of credit cards involves a shared responsibility between card issuing banks and their customers. We said that credit card holders need to use their cards responsibly. That means they should only purchase goods and services they can afford; they should not exceed their credit limits; they should make payments on time; and they should avoid behavior that lowers their overall credit worthiness.

For banks like Chase, our responsibilities include the need to communicate clearly and transparently about our products, to help customers understand the terms of our agreements – and to go further by helping them live up to those terms.

That is why, early last year, we developed our *Clear & Simple* program, to make sure customers have clear information and to simplify their relationship with us. Our *Clear & Simple* web site contains tools and access to programs that help customers manage their accounts and avoid late and over-limit fees. Through *Clear & Simple* customers may, for example, stop courtesy approval of over-limit charges, thereby assuring they will never be charged an over-limit fee. They may also sign up for free payment-due alerts and choose their own payment due date. They may also sign up for automatic payments, virtually assuring they will never be charged a late fee. The *Clear & Simple* site also contains educational resources for groups such as students and seniors to help them understand personal finance and the limits necessary to use credit cards wisely.

Last year, Madam Chairman, we participated in your roundtable process to develop a set of "Gold Standard" Credit Card Principles. We were pleased to be included in the roundtable and gratified that we could contribute to the Principles. In general, we believe that a broad set of clear, customer-friendly principles makes great sense and can serve as a guide to responsible behavior.

Also last year, as we examined our policies and practices through the lens of our *Clear & Simple* principles and in response to customer comments, we decided to make a major policy shift. We announced in November that, as of March 1<sup>st</sup> of this year, we would no longer use credit bureau information to re-set a customer's interest rate.

We very much appreciated your announcement applauding our change, Madam Chairman. We believe that in both principle and practice, we share your concerns for consumers who use credit cards.

However, we also believe that great caution must be exercised in the process of turning these concerns into complex new legislation. That is particularly true since good regulatory alternatives exist, namely the Fed's Regulation Z, which is well under way and promises to include certain features that will greatly benefit consumers, accomplishing much of what HR 5244, the Credit Card Bill of Rights Act of 2008, contemplates.

The Fed's far-reaching overhaul, while not perfect as we noted in our comment letter, will significantly improve consumer disclosures and consumers' control over contract terms. It is the result of extensive research and exhaustive consumer input involving 2,000 public comment letters, 900 pages of proposed changes, and significant interview and focus group research with consumers around the country. When the revised regulations are in place, we believe they will accomplish much of what policymakers want without the unintended consequence of harming the great majority of consumers with higher interest rates, about which I will speak in a moment.

I would also like to remind this Committee that Fed Chairman Bernanke, appearing here on February 27<sup>th</sup>, not only addressed the importance of Reg Z for consumers, but he also referred to the Fed's authority under the Unfair or Deceptive Acts and Practices authority to "ban specific practices which are unfair or deceptive for the consumer." This proposal is expected to be circulated soon.

At Chase, we believe that the Federal Reserve Board's process to put more information and greater control in the hands of consumers, combined with a commitment to ban practices that are unfair or deceptive, is preferable to the legislation currently under discussion and that Congress should let the Fed's process continue to determine its effectiveness.

We urge caution and great restraint with HR 5244 today and ask the various elements of our society represented here today – elected representatives, consumers, and industry – to consider the real and ultimate goal we are trying to achieve. If you see that goal, as we do, to be the continued availability of unsecured credit to the broadest group of Americans at the lowest average cost, then we all need to step back and see what impact this legislation would likely have.

Even though Chase does not engage in a number of the practices the bill would prohibit – for example, two-cycle billing and bureau-based re-pricing – we are still concerned about the unintended consequences for consumers that will result from legislation that would significantly reduce our ability to price our product according to the individually tailored profiles of our customers. This individualized pricing based on a customer's risk profile is the bedrock of our competitive credit card industry today. The ability to price for individual risk and make attractive offers for consumers' business based on competitive interest rates has significantly lowered the average rate paid by the vast majority of consumers, while at the same time making credit available to many who would never have qualified for a card only 15 years ago.

Turning back the clock on individualized pricing will reverse the most beneficial trend for consumers, as chronicled in a number of studies, in the past 20 years – bringing credit cards to many more people at much lower average prices.

The 2006 GAO report, requested by Senator Levin, found that credit card interest rates had declined from around 20 percent in 1990 to 12.3 percent in 2005. Federal Reserve data shows a similar drop in interest rates in the same period – from 18.23 percent at the end of 1990 to 12.58 percent at the end of 2005. Most studies relate these declines to the development of risk-based pricing and subsequent competition.

According to the Federal Reserve "Report on Practices," "advances in the technology of credit-risk assessment and the breadth and depth of the information available on consumers' credit experiences have made it possible for creditors to quickly and inexpensively assess and price risk and to solicit new customers." The result has been to unleash competitive forces that have lowered the interest rates on the majority of credit cards to close to that of the cost of funds.

Yet the current bill would undermine the competitive individual pricing model through a number of sub-provisions that essentially micro-manage a bank's ability to charge interest and to change an interest rate whenever a customer does not keep a promise, such as failing to pay a bill or going substantially over their credit limit. These are important parts of our agreement, and we have always made the consequences clear to our customers both at application and when they receive their card. The bill also requires that a bank follow payment terms which cost a great deal to implement – costs that will be passed on to consumers -- and will virtually end competitive efforts to win business through low or zero interest offers.

At Chase, our experience is that consumers appreciate these offers and take advantage of them. Many have become our long-term, valued customers.

Credit card issuing banks are constantly evaluating which of these loans may lead to a costly default or non payment. Whenever a bank's ability to adjust pricing at the first sight of default indicators is diminished, our experience tells us that expensive defaults will rise. For example, at Chase, approximately 30 percent of late payers eventually default on their loans. This results in costs being driven up and passed on to consumers in the form of higher interest rates and avoiding taking on customers with riskier individual profiles, cutting off access to mainstream credit for many Americans. When this happens, these families may be forced to turn to payday lenders and sub-prime credit sources where interest rates can be extraordinarily high.

Please keep in mind that these comments come from a bank that has already taken extraordinary steps to increase the control its customers have over their accounts, including most notably our recent pricing policy change that we no longer use credit bureau information to initiate an increase to a customer's rate – *ever*. We believe that especially in times of economic uncertainty, our customers appreciate knowing that whatever financial strain they might face, we won't add to it, as long as they remain in good standing with us.

We also very strongly believe the context in which HR 5244 is being put forward argues for considerable restraint on this legislation.

In this uncertain economy, with credit markets already much tighter than they have been in many years, prudence would seem to dictate extreme caution with legislation that has the potential to further restrict consumers' access to credit. Access to unsecured credit through credit cards has become so important to consumers that there is significant anecdotal evidence that many are paying their credit card bills before other forms of credit, including mortgage and automobile loans. There is clear indication that restricting credit cards would likely have painful consequences for consumers and small businesses – and eventually for the US economy.

With these comments, I want to say again that I am pleased to represent Chase Card Services and its employees today and look forward to your questions.