Prepared Statement of

Robert D. Manning, PhD
Research Professor of Consumer Finance and
Director of the Center for Consumer Financial Services
E. Philip Saunders College of Business
Rochester Institute of Technology

Hearing on " Practices of the Credit Card Industry,"

Before the New York Senate Standing Committee on Consumer Protection,
Assembly Standing Committee on Consumer Affairs and Protection,
Assembly Standing Committee on Banks

The Honorable Charles J. Fuschillo, Jr., Chairman

10:00 a.m., Monday, April 16th, 2007 – Room 124 State Capitol Building, Albany, NY

I would like to thank Chairman Charles J. Fuschillo, Jr. for providing this opportunity to share my views with the respective Committees on the increasingly important issue of deceptive credit card marketing, pricing, and consumer contract disclosures during this increasingly complex period of banking deregulation and the impending crisis of the unprecedented high consumer debt levels and deceptive loan contracts. This Committee has a long tradition of examining and protecting consumer rights in the realm of financial services and I hope that this hearing will produce some relief to financially distressed and overburdened New York households as they cope with the rapidly changing credit card policies and practices. In this endeavor, I applaud Senator Fuschillo's leadership in related areas of consumer identity fraud and the creation of a consumer option to freeze access to personal financial information.

Although New York has historically been at the center of the U.S. banking "universe," recently our state and federal legislators have not been as vigorous in their championing of their constituents' consumer rights as they have the corporate rights of their nonvoting "constituents." As one of the academic leaders in promoting financial literacy education and restrictions on credit card marketing on high school and college campuses, I am pleased to learn of the growing bipartisan interest on these topics. Indeed, the twin issues of rising costs and levels of consumer debt together with shockingly low levels of financial literacy among our youth and their parents have grave implications to the continued economic well-being of our nation—especially as Americans age into debt while their defined pensions disappear and their Social Security benefits continue to shrink. For these and many other reasons, I commend the Committee for accepting the daunting task of examining the increasingly serious problems that will be addressed today.

As Research Professor of Consumer Finance and Director of the Center for Consumer Financial Services at Rochester Institute of Technology, I have spent over 20 years studying the impact of globalization and U.S. industrial restructuring on the standard of living of various groups in American society. Over the last 15 years, I have been particularly interested in the role of consumer credit in shaping the consumption and financial planning decisions of Americans as well as the role of retail banking in influencing the profound transformation of the U.S. financial services industry. In regard to the latter, I have studied the rise of the credit card industry in general and its related

marketing associations (VISA, MASTERCARD) as well as the emergence of global financial services conglomerates such as New York's Citigroup during the deregulation of the banking industry beginning in the late 1970s.

In terms of the former, my research includes in-depth interviews and lengthy survey questionnaires with over 800 respondents in the 1990s and nearly 1500 in the 2000s. The results of this research are summarized in my book, *CREDIT CARD NATION: America's Dangerous Addiction to Consumer Credit (Basic Books, 2001*) and a forthcoming series of research articles. More recently, I completed a book-length monograph sponsored by LendingTree.com, *LIVING WITH DEBT* (2005), which examined changing attitudes and behaviors toward consumer credit and debt over six specific life-cycle phases through a series of 12 focus groups with nearly 150 people. Furthermore, I have been studying the global expansion of deregulated consumer financial services with particular attention to comparative governmental policies that enforce consumer rights in Europe, Asia, and Latin America. My next book, *GIVE YOURSELF CREDIT* (Alta Mira/Taylor Publishers, 2007, presents an updated analysis of the deregulation of the credit card industry, major public policy issues, and practical guidance for consumers for more prudent use of consumer credit. These interests in public policy and financial literacy have inspired the development of my own internet-based financial literacy/education programs at www.creditcardnation.com.

In addition, I am the Editorial Advisor to the recently released and widely acclaimed documentary, *IN DEBT WE TRUST: America Before the Bubble Bursts,* that examines the social impact of the deregulation of consumer financial services (especially credit cards). In general, banking deregulation has benefited the most affluent groups with low (and even negative interest loans in the case of credit cards) and extraordinarily high-cost credit to the most financially distressed groups. This documentary features the experiences of many New York state residents as they cope with the impact of deceptive and often usurious lending rates as they cope with rising costs and levels of debt. In association with the release of the movie, RIT's Center for Consumer Financial Services and GlobalVision have begun organizing a national "Fair and Responsible Lending" campaign that seeks to promote equitable lending policies from banks and enhanced personal financial literacy/awareness skills among consumers; the campaign website is www.stopthesqueeze.org. Our objective is to encourage both corporate and individual

financial responsibility in an attempt to rein in the consumer financial services system that is increasingly spinning out of control. Also, I am pleased to report that my three-year effort to develop an alternative to Chapter 7 consumer bankruptcy, following my testimony against the dysfunctional federal bankruptcy reform legislation in the US Senate Judiciary Committee in 2001, is finally in a pilot stage in California and soon Utah and hopefully it will soon expand into New York. This lawyer supervised, partial payment program for unsecured debts demonstrates that even partnerships with banks that will yield them much higher financial returns is not sufficient incentive for reforming their current adversarial debt collection practices.

Before commencing with my substantive remarks, I would like to emphasize that, as a frequent critic of the major money center banks, it is not my objective to pursue an adversarial agenda that simply highlights their most egregious pricing, marketing, and collection policies. Instead, I implore our banking colleagues to "Do The Right Thing" and challenge them to work with government regulators and consumer organizations to restore the integrity of this noble profession by affirming their willingness to eradicate the most disingenuous and financially irresponsible policies of the consumer financial services industry. I believe that most leaders of this industry do not want their reputation besmirched by such outrageous pricing policies as universal default, double-billing cycles, and adjustable "teaser" rates that deceive and ultimately will deny millions of American families the opportunity to achieve their American Dream. Let's formulate effective public policy that builds communities through sound underwriting standards, enhances the American standard of living through prudent use of credit, and generates national wealth by investing in "good" debt rather than the short-term and counter-productive policies that are destroying communities through mortgage foreclosures and eroding household wealth through a punitive debt collection/bankruptcy system.

LIVING WITH DEBT IN AMERICA:

Soaring Household Liabilities, Rising Costs, and Declining Consumer Protections

In early 2006, the approximately 190 million bank credit cardholders in the United States possessed an average of about 7 credit cards (4 bank and 3 retail) and they charged an average of $8,500 during the previous year (Cardweb,com, 2004a; Card Industry Directory, 2006). In 2005, about 75 million (2 out of 5 account holders) were

convenience users or what bankers disparaging refer to as *deadbeats* because they pay off their entire credit card balances each month.[1] In contrast, nearly 3 out of five cardholders or over 70 million are lucrative debtors or *revolvers*; they typically pay more than the minimum monthly payment (previously 2% and transitioning to 4% of outstanding balance as per a recent OCC "advisory") while nearly 45 million struggle to send the minimum monthly payment (Cardweb.com, 2004a, Card Industry Directory, 2006).

Over the last 10 years, 1996-2005, which includes the longest economic expansion in American history, the total number of bank credit cards increased 46.2 percent, total charge volume doubled (from $798.1 to $1,618.0 billion), and "gross" outstanding credit card debt climbed 75 percent (Card Industry Directory, 2006, Ch 1). See Table 11. Today, late 2006, approximately three out of five U.S. households account for almost $770 billion in outstanding, "net" bank credit card debt plus over $100 billion in other lines of credit (Card Industry Directory, 2006; Cardweb.com, 2004a; U.S. Federal Reserve, 2006). This reflects a meteoric rise in credit card debt—from less than $60 billion at the onset of banking deregulation in 1980.

Furthermore, it is important to note that the complexity of the deregulated lending environment is reflected in technically "discrete" categories of consumer debt that were previously homogeneous—like mortgage debt—but now are essentially composite categories of a wide range of consumer loans. This is due to the sharp decline mortgage rates and underwriting standards of the 2000s—especially 2001-05—that were driven by the growth of asset-backed securities by Wall Street (usually "sister" firms within the major financial services companies) that are resold on the national and international secondary investor markets. This is manifest in the sharp decline in the growth of "revolving" consumer credit card debt in comparison to "nonrevolving" or installment debt such as auto, furniture, and appliance loans in the 2000s. For example, between 1995 and 1999, credit card outstandings rose an average of 9.5% whereas nonrevolving rose and average of 7.3%. Following the 2000 recession, however, installment borrowing rose averaged 7.5% per year whereas the revolving average

[1] During the residential housing boom, when families were encouraged to pay off their high interest credit cards with home equity loans and mortgage refinancings, the number of convenience users technically to a high of 43-43 percent in early 2005 (CardWeb.com, 2005). The proportion of convenience users is falling with declining home prices, previous mortgage/equity loans, a difficult sellers' market, and falling real household income.

plummeted to 1.2% over the period 2001 to 2005. If "net" credit card debt had continued to increase at the same level as the late 1990s, like lower interest installment debt, it would be approximately $300 billion higher at the end of 2006. Like college students using student loans to pay down their credit card balances (Manning, 2000: Ch 6; Manning and Kirshak, 2005; Manning and Smith, 2007), homeowning families converted and thus reclassified their high interest revolving debt into lower-cost mortgage debt in the 2000s. Unfortunately, unexpectedly high lender fees and adjustable rate mortgages have sharply reduced the cost saving in these debt consolidation decisions.

Today approximately 75 percent of U.S. households have a bank credit card, up from 54 percent in 1989 (Canner and Luckett, 1992; Cardweb.com, 2004a). Approximately 10 million households do not have formal retail banking accounts and other lower income/financially distressed households use charge (debit) rather than credit cards. Overall, the average outstanding credit card balance (including bank, retail, gas) of debtor or "revolver" households with at least two adults has soared to over $13,000 This is exclusive of "nonrevolving" consumer debt such as auto, home equity, furniture, debt consolidation, and student loans, which total over $1.5 trillion at the end of 2006, plus skyrocketing mortgage debt which has now become a composite category of a wide range of household debts through home equity and mortgage refinancings/debt consolidations. Table 2 reports the sharp increase in consumer debt ("revolving" and "installment") over the last 25 years (nearly doubling over the last 10 years) and the rapid rise of credit card debt—from 18.5% of installment debt in 1980 to 41.9% in 1990 peaking at 68.9% in 1998 and dropping to 57.5% in 2006. As illustrated by these statistics, the last two decades have witnessed the birth of the Credit Card Nation and the ascension of the debtor society where the rising U.S. standard of living has been more likely financed by debt rather than household income growth and saving (Manning, 2000; Sullivan, Warren, and Westbrook, 2000; Warren and Tyagi, 2003; Manning, 2005; Leicht and Fitzgerald, 2006).

Banking Deregulation and the Ascent of Retail Financial Services: What's Consumer Debt Got to Do With It?

The debate over the origins of the consumer lending "revolution" and subsequent requests for government regulation tend to focus on either the "supply" or "demand" side of this extraordinary transformation of the American banking industry with its profusion

of new and complexity banking/insurance products. This section explores how statutory and regulatory reforms over the last three decades have fundamentally changed the structure of the U.S. banking industry and the subsequent "supply" of financial services. During this period, the institutional and organizational dynamics of American banking have changed profoundly as well as the "supply" of financial services in terms of their use, cost, and availability. Indeed, the intensifying economic pressures of globalization (U.S. industrial restructuring, Third World debt crisis, downward pressure on U.S. wages) together with new forms of competition in the U.S. financial services industry (rise of corporate finance divisions, growth of corporate bond financing, expansion of mortgage securitization) precipitated a dramatic shift from "wholesale" (corporate, institutional, government) to "retail" or consumer banking (Brown, 1993, Dymski, 1999; Manning, 2000: Ch 3). And, as explained later, consumer credit cards played an instrumental role in this process.

The basic public policy assumption of banking "deregulation" is that reducing onerous and costly government regulation invariably unleashes the productive forces of intercompany competition that yield a wide range of direct benefits to consumers. The most salient features of this "Democratization" of credit are lower cost services, greater availability of products, increased yields on investments, product innovation, operational efficiencies, and a more stable banking system due to enhanced industry profitability (Brown, 1993, GAO, 1994; Rougeau, 1996; Dymski, 1999; Manning, 2000: Ch 3, US Federal Reserve, 2006). This "free market"-based prescription for miraculously satisfying both the profit goals of financial services executives and the cost/availability interests of consumers belies the inherent political asymmetries that have militated against the distribution of industry efficiencies over the last 20 years. It is the intractable conflict between corporate profit maximizers in the banking industry and consumer rights advocates that constitutes the focus of this analysis. That is, individual choice is not to be confused with an informed consumer in this rapidly changing marketplace.

According to Jonathan Brown, Research Director of *Essential Information*, there are three systemic contradictions of *laissez-faire*-driven banking deregulation that limit "broad-based" consumer benefits. In brief, they are [1] excessive risk-taking by financial institutions that are facilitated by publicly financed deposit insurance programs (FDIC) and publicly subsidized corporate acquisitions of insolvent financial institutions (Savings

and Loan crisis of early 1980s); [2] increased industry concentration and oligopoly pricing policies (in the absence of a strong anti-trust policy) that limits cost competition over an extended period of time; and [3] diminished access to competitive, "mainstream" financial services for lower income households as corporations focus their resources on more affluent urban and suburban communities. Brown concludes by underscoring the paradox of "free market"-driven banking deregulation, "strong prudential control [by government and consumer organizations] becomes even more important because deregulation increases both the opportunities and the incentives for risk-taking by banking institutions [in the pursuit of optimizing profits rather than public use]" (Brown, 1993: 23). For our current purposes, the latter two trends merit further discussion.

The first distinguishing feature of the early period of banking deregulation is the sharp increase in the growth and profitability of retail banking in comparison to wholesale banking. During the early 1980s, wholesale banking activities experienced a sharp decline in profitability, especially in the aftermath of the 1982-83 recession. These include massive losses on international loans, large real-estate projects, and energy exploration/extraction companies. Furthermore, traditional bank lending activities faced new and intensified competition such as Wall Street securities firms underwriting cheaper bond issues, corporate finance affiliates offering lower-cost credit for "big ticket" products (automobiles), and the integration of home mortgage loans into the capital market via the sale of asset-back securities (mirrored in the explosive growth of Fannie Mae) which contributed to downward pressures on bank lending margins. In addition, many consumers with large bank deposits shifted their funds into higher yield mutual funds that were managed by securities firms. This increased the cost of bank funds since they were forced to offer certificates of deposits (CDs) with higher interest rates which further reduced their profit margins (Brown, 1993; Nocera, 1994; Manning, 2000).

As astutely noted by Brown, the response of U.S. banks to these intensifying competitive pressures was predictable, "[F]inancial deregulation tends to lower profit margins on wholesale banking activities… where large banks have suffered major losses on their wholesale banking operations, the evidence suggests that they tend to increase profit margins on their retail activities in order to offset their wholesale losses" (Brown, 1993: 31). Indeed, corporate borrowers have been the major beneficiaries of banking deregulation over the last two decades. This is evidenced by the sharp increase in the

cost of unsecured consumer debt such as bank credit cards; see Manning (2000:19) for a cost comparison of corporate-consumer lending rates in the 1980s and 1990s.[2]

The magnitude of this shift in interdivisional profitability within large commercial banks is illustrated during the 1989-91 recession. For example, Citicorp reported a net income of $979 million from its consumer banking operations in 1990 whereas its wholesale banking operations reported a $423 million loss. Similarly, Chase Manhattan's retail banking activities produced $400 million in 1990 whereas its wholesale banking activities yielded a $734 loss (Brown, 1993: 31). Not unexpectedly, bank credit cards played a central role in fueling the engine of consumer lending in the 1980s. The average "revolving" balance on bank card accounts jumped six-fold--from $395 in 1980 to $2,350 in 1990 (Manning, 2000:11). According to economist Lawrence Ausubel, in his analysis of bank profitability in the period 1983-88, pretax return on equity (ROE) for credit card operations among the largest U.S. commercial banks was 3-5 times greater than the industry average (1991:64-65). Hence, the ability to increase retail bank margins in the early 1980s led to the sharp growth in consumer marketing campaigns and the rapid expansion of consumer financial services directed toward middle and then more financially insecure and marginal groups in the late 1980s such as college students, seniors, and the working poor (Mandell, 1990; Nocera, 1994; Ausubel, 1997; Manning, 2000; Sullivan, Warren, and Westbrook, 2000; Manning, 2005; Leicht and Fitzgerald, 2006). This symbiotic relationship between finance divisions and producers/retailers, which has served historically to moderate consumer effective demand and/or reinforce consumer loyalty such as the Ford and General Motors during the Great Depression (cf. Calder, 2000), underlies the shift in profitability within the American corporation during the contemporary period of post-industrial capitalism. This is illustrated by the rise of the Target owned bank credit card which has rapidly grown to become the tenth largest issuer in 2006.

Not incidentally, the escalating demand for increasingly expensive consumer credit was not ignored by nonfinancial corporations. Growing numbers of manufacturers and retailers established their own consumer finance divisions such as GMAC, GE Financial, Sears, Circuit City, Pitney Bowes, and Target. In many cases, like the dual profit

[2] The real cost of credit card borrowing, exclusive of introductory or low "teaser" rates and inclusive of penalty fees and interest rates, has nearly tripled for consumer "revolvers" since the initial phase of banking deregulation in the early 1980s.

structures of the banking industry, the traditional operations of these major corporations (manufacturing, retailing) encountered mounting competitive pressures through globalization and subsequently experienced sharp declines in their "core" operating margins. Escalating revenues in their financing divisions (especially consumer credit cards) compensated for these declines and, in especially aggressive corporations like General Electric, were spun-off into enormously profitable global subsidiaries such as GE Financial (Manning, 2000: Ch 3). In fact, the financing units of Deere & Co. and General Electric accounted for 21 and 44 percent, respectively, of corporate earnings in 2004 and all of Ford's pretax profits in 2002 and 2003 (Condon, 2005). In 2005, financial companies account for 30 percent of U.S. corporate profits, up from 18 percent in the mid-1990s and down from its peak of 45 percent in 2002 (Condon, 2005).[3] As a result, there is growing concern that shrinking bank profits derived from commercial loans to corporate borrowers, together with declining profits from the speculative "carry trade" (long-term hedging of short-term interest rates such mortgage bonds), will exacerbate pressure to increase profits on retail lending activities and thus raise the cost of borrowing on consumer credit cards.

As the consumer lending revolution shifted into high gear in the late 1980s, rising profits and rapid market growth (number of clients and their debt levels) fueled the extraordinary consolidation of American banking and especially the credit card industry. In 1977, before the onset of banking deregulation, the top 50 banks accounted for about one-half of the credit card market (Mandell, 1990). This is measured by outstanding credit card balances or "receivables" of each card issuing bank. Fifteen years later, 1992, the top ten card issuers expanded their control to 57 percent of the market, prompting a formal U.S. Congressional inquiry into the "competitiveness" of the credit card industry (GAO, 1994). Over the next decade, bank mergers and acquisitions proceeded at a breakneck pace, propelling the concentration of the credit card industry to oligopolistic levels.

---

[3] The success of corporate finance operations has led to more aggressive involvement with high-risk, speculative investments including "junk" bonds. For example, the sharp decline in the Federal Reserve's "discount" interest rate in 2001 led many of these finance divisions to invest heavily in the "carry trade" whereby companies borrow at low, short-term rates and invest in higher yield, long-term bonds or asset-backed (e.g. mortgages, credit cards) securities. Today, with interest rates rising, the enormous profits made from these bond purchases in 2002 and 2003 will soon be replaced with losses following the decline in this favorable interest rate "spread." As a result, corporate finance affiliates must offset these losses by

For example, Banc One's acquisition of credit card giant First USA in 1997 was followed in 1998 by Citibank's purchase of AT&T's credit card subsidiary--the eighth largest card issuer. Over the next eighteen months, MBNA bought SunTrust and PNC banks, Fleet merged with BankBoston, Bank One acquired First USA, NationsBank merged with Bank of America, and Citibank bought Mellon Bank. Today, the ongoing concentration of the credit card industry features the mergers of increasingly larger corporate partners. In 2003, Citibank purchased the troubled $29 billion Sears MasterCard portfolio (Citibank, 2003). This was followed in 2004 with Bank of America's acquisition of Fleet Bank (tenth largest U.S. credit card company) and J.P Morgan Chase's purchase of Bank One (third largest credit card company). As a result, the market share of the top 10 banks climbed from 80.4 percent in 2002 to 86.7 percent in 2003 and then to 88.1 percent in 2004 (Card Industry Directory, 2005). In 2005, this market concentration continued with Bank of America's acquisition of MBNA. Overall, the top three card issuers (J.P. Morgan Chase, Citigroup, Bank of America,) controlled over 61.8 percent of the market at the beginning of 2006 as defined by their proportion of outstanding credit card debt. See Table 3. This extraordinary pace of industry concentration explains the increased premiums that these major credit card companies have been paying for Private Label store credit card portfolios such Home Depot, Victoria Secret, and Macy's.

Not surprisingly, as market expansion and industry consolidation approach their statutory limits in the United States, several top megabanks have begun demanding the relaxation of market concentration restrictions in the US (e.g. Bank of America's recent request to raise the 10% limit on the national market share of consumer deposits) and abroad. This has contributed to the aggressive marketing of consumer financial services in international markets through corporate acquisitions, mergers, and joint ventures which have been facilitated by the increased membership in the World Trade Organization and its promotion of financial services liberation. These include Citibank, MBNA, Capitol One, GE Financial, and HSBC with particular attention to Europe and Southeast Asia followed by Latin America and Africa (Mann, 2006; Manning, 2007a). This is shown in Table 4. Between 2000 and 2005, the growth of bank issued credit cards in the US increased marginally (3%) whereas the expanded nearly 65% globally albeit including the bank issuance of debit cards (Card Industry Directory, 2006).

---

increasing the volume of more costly corporate loans which is problematic with current market conditions. This will increase pressure to raise lending margins on their consumer financial services.

Not only has U.S. banking deregulation transformed the market structure of the US and eventually the global financial services industry but it has also facilitated the rise of the "conglomerate" organizational form. This second distinguishing feature of the recent deregulated banking era is a profit maximizing response to the maturation of industry consolidation trends. In brief, the limits of organizational growth through horizontal integration, even with its economic efficiencies of scale and oligopolistic pricing power, entails that future growth can only be sustained by expansion into new product lines and consumer markets. This multidivisional corporate structure, guided by "cross-marketing" synergies offered by "one-stop" shopping via allied subsidiaries for the vast array of consumer financial services, was initially attempted by Sears and American Express in the 1970s and 1980s with generally disappointing results (Nocera, 1994; Manning, 2000).

By the late 1990s, two financial services behemoths sought to bridge the statutory divide between commercial banking and the insurance industry by combining their different product lines into a single corporate entity: Citigroup. Technically, the 1998 merger of Citibank and Travelers' Insurance Group was an illegal union that required a special federal exemption until the enactment of the *Financial Services Modernization Act* (FSMA) of 1999 (Macey and Miller, 20000; Manning, 2000: Chapter 3; Evans and Schmalensee, 2005).[4] With cost-effective technological advances in data management systems together with U.S. Congressional approval of corporate affiliate sharing of client information (FSMA) and the continued erosion of consumer privacy laws (*Fair Credit and Reporting Act* of 2003), Citigroup became the first trillion dollar U.S. financial services corporation that offered the "one-stop" supermarket model for all of its clients' financial needs. These include retail and wholesale banking, stock brokerage (investment) services, and a wide-array of insurance products for its customers in over 100 countries. Again, bank credit cards played a crucial role through the collection of household consumer information, the cross-marketing of Citigroup products and services, and its high margin cash flow that helped in offsetting costly merger and integration-related expenses (Manning, 2000: Ch 3). Ironically, the much faster growth and

[4]Also referred to as the Gramm-Leach-Biley Act (GLBA) of 1999.

profitability of its retail banking operations led Citigroup to sell off its Traveler's insurance divisions to Met Life in 2005. [5]

A third distinguishing feature of banking deregulation is the widening institutional gap or bifurcation of the U.S. financial services system. That is, the distinction between "First-tier" or low-cost mainstream banks and "Second-tier" or 'fringe' banks such as pawnshops, rent-to-own shops, "payday" lenders, car title lenders, and check-cashers. This widening institutional division between these consumer financial services sectors has dramatically increased the cost of credit among immigrants, minorities, working poor, and heavily indebted urban and increasingly suburban middle-classes (Caskey, 1994; 1997; Hudson, 1996; 2003; Manning, 2000: Chapter 7; Peterson, 2004; Karger, 2005). Indeed, the usurious costs of financial services in the second-tier reflect the ideological zeal of regulatory reformers whose goal is to rescind interest rate ceilings, loan "quotas" imposed on mainstream banks for disadvantaged communities, and vigorous enforcement of financial disclosure laws. Shockingly, the cost of credit typically exceeds 20 percent per month (often over 600% APR) for consumers who often earn poverty-level incomes and less although use of these services is growing among financially distressed, lower middle income households ($25,000 to $45,000 annual incomes).

The significance of this trend is two-fold. First, the systematic withdrawal of First-tier banks from low-income communities restricts the access of these residents to reasonably priced financial services. Although morally reprehensible, banks frequently justify their actions in terms of economic efficiencies and profit utility functions that are arbitrated by "free-market" forces. The political reality, however, it that this policy is a defiant rejection of the affirmative obligation standard of the *Community Reinvestment Act* (CRA) of 1977 (Brown, 1993, Fishbein, 2001; Carr, 2002). That is, the banking industry receives enormous public subsidies through (1) depositor protection programs/policies, (2) access to low-cost loans through the Federal Reserve System's lender of last resort facility, and (3) privileged access to the national payments/transactions system (Brown, 1993). The *quid-pro-quo* for satisfying this

[5] Citigroup's consumer financial services companies have outperformed the insurance division in growth and profit margins—especially after 2001. As a result, Citigroup has retreated from its one-stop, financial supermarket concept and has agreed to sell its Travelers Life & Annuity division to Metlife Inc for $11.5 billion in winter of 2005 (Reuters, 2005b).

affirmative obligation standard has been an understanding that banking institutions have a duty to provide access to financial services to disadvantaged groups within their local communities, to engage in active marketing programs for promoting these financial services and products, and, in the process, to absorb some of the administrative expenses and costs of their financial products/services. By ignoring their responsibility to CRA, First-tier financial institutions have invariably increased the population of "necessitous" consumers whose limited resources exacerbates their reliance on "Second-tier" financial services and their vulnerability to predatory lenders.

Second, the tremendous price differential between the two banking sectors increases the financial incentive for First-tier banks to abandon low-income and minority communities and return directly or indirectly through financial relationships with Second-tier financial institutions (Hudson, 1996; 2003; Manning, 2000:Ch 7; Peterson, 2004; Karger, 2005). This is becoming an increasingly common practice of the largest banks. For instance, Citibank purchased First Capital Associates in 2000 which had been penalized by federal regulators from the Office of the Comptroller of the Currency (OCC) for its past predatory lending policies and was again recently chastized by the Federal Reserve for originating predatory home mortgages, HSBC's purchase of Household Bank in 2000 was delayed following the negotiation of a $400 million predatory lending settlement, and Providian Bank was fined $300 million by the OCC in 2000 for its unfair and deceptive practices in the marketing of its "subprime" card cards (Manning, 2001; 2003; Hudson, 2003; Peterson, 2004).

As the growth rate of traditional, middle-class financial services markets stagnates, the U.S. credit card market has become clearly segmented into at least 4 distinct strata: [1] high net worth such as American Express' *Black Card* whose revenues are nearly exclusively fee-based (merchant fees); [2] mainstream or traditional credit cards for middle-income households with competitive interest rates dominated by the Big Three card issuers; [3] the less competitive, higher interest Private Label cards such as Home Depot or department store cards which feature an interest rate premium of 5-7 percentage points (dominated by Citibank, GE Financial, Chase); and [4] subprime credit cards for the most financially distressed which feature low credit lines (typically less than $250) with fees accounting for 70-80 of total revenues among major issuers such as Capital One, Cross Country Bank, HSBC's Orchard Bank, and First Premier Bank.

Furthermore, major banks are aggressively promoting "subprime" consumer lending programs with triple digit finance charges (effective APRs) such as HSBC's partnership with H&R Block's Rapid Advance Loan (RALs) and Capital One Bank's fee-laden credit cards such as its "EZN" card which imposes $88 in fees for $112 line of credit. It is the desperation of consumers who depend on credit for household needs, especially after personal bankruptcy or an economic calamity (job loss, medical expenses, divorce), that leads them to "trustworthy,' major financial institutions whom they expect to offer the best financial rates on consumer loans. However, instead of receiving "No Hassle" credit cards with moderate interest rates, unsuspecting Capital One customers often receive subprime cards with little credit and unjustifiably high fees.[6] In the case of First Premier Bank, the $250 line of credit at 9.9% features $178 in fees.[7] With such small loans offered to households that are specifically identified/marketed by these banks through the purchase of mass mailing information from the major three credit reporting bureaus (CRBs), it is not surprising that this small market niche is the most profitable of the industry with its major costs associated with marketing, debt collection activities, and fighting civil litigation filed on behalf of aggrieved consumers.

Although the professed rationale for the passage of the more stringent Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 was consumer abuse of the Chapter 7 liquidation codes that increased costs to financially "responsible" consumers due to higher credit card charge off rates and downward pressure on corporate profits (cf. Warren, 2002), the financial health of the credit card industry has never been better. In fact, the year that the BAPCPA was enacted, credit card charge-offs declined 4% (from $36.4 to 35.1 billion). Furthermore, the credit card industry has reported a succession of record profits. In 2003, pre-tax profit (Return on Investment) of $17.1 billion climbed 32.4% from 2002 even though interest revenue declined slightly from $66.5 to $65.4 billion (Card Industry Directory, 2005). According to the June 2003 FDIC report on bank

[6]See *Foster v. Capital One Bank, et al* for ongoing class action lawsuit regarding deceptive marketing and excessive fees for the "*Capital One* Visa Permier" credit card that features O% introductory APR on all purchases and a variety of fees including $39 annual membership and $49 "refundable security deposit.

[7]See *Paul T. Finkbiener, et al, v. First Premier Bank, et al* (filed in 2003) for example of deceptive marketing, disclosures, and excessive fees for the "*First* Permier" credit card that features 9.9% introductory APR on all purchases with a variety of fees including $39 annual membership and $49 "refundable security deposit. Maximum line of credit is $250 before deducting activation and membership fees.

profits, [First Quarter 2003] "is the largest quarterly earnings total ever reported by the [banking] industry... [and] the largest improvement in profitability was registered by credit card lenders [with] their average Return-On-Assets (ROA) rising to 3.66 percent from 3.22 percent a year earlier;" The Card Industry Directory (2004) reports 2003 ROA at 4.02 percent and credit card industry analyst R.K. Hammer Investment Bankers report it at an even more impressive 4.40 percent. The extraordinary profitability of consumer credit cards is illustrated by comparing the ROA of credit card issuers with the overall banking industry. According to the FDIC, the increase in the ROA for the banking industry rose from 1.19% in 1998 to 1.40% in 2003 (First Quarter) or 17.6% while the U.S. Federal Reserve Board reports that ROA for the credit card industry was 2.13% in 1997 and has risen impressively to 2.87% in 1998, 3.34% in 1999, 3.14% in 2000, 3.24% in 2001, 3.5% in 2002, and 3.66% in 2003. This is largely due to lower cost of borrowing funds (widening "spread" on consumer loans), decline in net charge-offs ($911 million or 18.5 percent lower in 2003 than 2002),[8] decline in delinquent accounts ($919 million or 14.3 percent lower in 2003 than 2002), cross-marketing of low-cost insurance and other financial services, and dramatic increase in penalty and user fees. For 2005, the most recent period that financial data is publicly available, the industry had another record year of profitability—a pre-tax profit/ROA of $18.5 billion. As shown in Table 5, the after-tax profit/ROA of $12.0 billion was an astounding 30.55% increase from 2004—even before the implementation of the new consumer bankruptcy codes. This was driven by lower charge-offs, smaller fraud losses, higher merchant fees (especially growth of debit transaction fees), higher finance charges, and especially consumer fees (annual, penalty, cash advance) that totaled $16.4 billion (Card Industry Director, 2006).

---

[8] Historically, about 60% of bad consumer debt or bank "charge-offs" is due to unsecured credit card or "revolving" loans. According to the *Card Industry Directory* (2004: 11), card industry "charge-offs" declined from $35.4 in 2002 to $33.2 billion in 2003 or less than one-half of total bank charge-offs. This constitutes about 5 percent of net outstanding credit card balances at the end of 2003 (Cardweb, 2004). Note, this is not the same as the outstanding loan principal "charge-offs" since banks typically do not classify delinquent debt as in "default" until 90 to 120 days. For example, based on the following conservative estimates, one-third of this gross "charge-off" amount is attributed to: [a] delinquent interest rates over the last 4 months (about $2.0 billion at 23.9% APR) plus [b] late fees (about $0.9 billion at $35 per month) together with [c] overlimit and cash advance fees ($0.3 billion at $35 per month and 3% per transaction) plus [d] 12 months of interest prior to delinquency ($4.5 billion at 17.9%APR) and [e] legal/collection fees ($0.8 billion at $140 per account). In addition, recently "discharged" credit card debt is selling for 6.5 to 7.0 percent "face value" on the secondary market (*Card Industry Directory*, 2004: 11). Overall, the data suggest that the "true" loss of capital to the major credit card issuing banks is approximately 60 percent of the reported "charge-off" value. These estimates assume that at over one-fourth of these "charge-off" amounts are due to late fees, overlimit fees, accrued finance charges, and collection related fees which are subsequently sold on the secondary market.

One of the most striking features of the deregulation of the U.S. banking industry is the sharp increase in the cost of "revolving" credit (Ausubel, 1991; 1997; Manning, 2000). For instance, the 'real' cost of borrowing on bank credit cards has more than doubled due to widening interest rate "spreads" (doubled from 1983 to 1992) in addition to escalating penalty and user fees. The former is a result of the 1978 US Supreme Court (Marquette National Bank of Minneapolis v. First National Bank of Omaha) decision that permitted banks to relocate their corporate headquarters simply to find a "home" where they could essentially "export" high interest rates across state boundaries and effectively evade state usury regulations (GAO, 1994; Rougeau, 1996; Manning, 2000; Evans, and Schmalensee, 2001; Lander, 2004). The largest credit card issuers, led by Citibank, swiftly moved to states without interest rate ceilings. This relocational strategy of major nationally chartered banks has essentially eliminated a publicly legislated lending rate or state "usury" cap. See Appendix A for the state headquarters of the largest credit card issuers. The dramatic increase in fee revenues is attributed to the 1996 U.S. Supreme Court decision, Smiley v Citibank, which ruled that credit card fees are part of the cost of borrowing and thus invalidated state imposed fee limits (Macey and Miller, 1998; Evans and Schmalensee, 2001; Lander, 2004). Overall, penalty and cash advance fees have climbed from $1.7 billion in 1996 to $12.0 billion in 2003 to $16.4 billion in 2005.. The average late fee has jumped from $13 in 1996 to over $30 in today. Incredibly, combined penalty ($7.9 billion) and cash advance ($5.3 billion) fees of $13.2 billion exceed the "net" after-tax profits of the entire credit card industry ($12.03 billion) in 2005. See Table 5.

In conclusion, banking deregulation has produced an economic boom for the U.S. financial services industry. In the 1990s, it recorded eight successive years of record annual earnings (1992-1999) and rebounded with five successive years of record profits since the end of the 2000 recession, (FDIC, 2004; Daly, 2002). In fact, the assets of the ten largest U.S. banks total $3,552 billion at the end of June 2003—an astounding increase of 509 billion from 2002 (16.7%). Overall, the assets of the ten largest U.S. banks exceed the cumulative assets of the next 150 largest banks (American Banker, 2003). And, this trend does not appear to be abating. Today, rising interest rates (most credit cards feature variable interest rates where retroactive rate increases can be easily triggered unilaterally by the card issuer), growth of POS transaction fees (credit and debit) for low cost items (under $5), higher fee schedules, improving debt "quality," and

the 15-18% price premiums for the sale of asset-backed or "securitarized" credit card debt portfolios in the secondary market to American and global investors. This latter trend is especially disconcerting as it reflects a market concentration outcome whereby major card issuers have become less concerned about consumer debt/income capacity issues since the robust housing market has led to declining credit card debt charge-offs and they are reaping huge profits through portfolio sale premiums and account processing for investors. My concern is that major lenders are becoming more concerned about satisfying the performance of these securities to investors than working closely with financially distress consumers who fall behind in their payments. In some cases, we are seeing investors reluctant to work directly with delinquent debtors since a specified default rate is already priced into the sale price of the security. This could have major implications as we examine the relationship between credit card and mortgage debt.

IN DEBT WE TRUST:
Seduction, Indulgence, or Desperation?

The increasing societal dependence on consumer credit since the onset of banking deregulation in the late 1979s is staggering. Between November 1980 and November 2005, revolving "net" credit card debt has climbed fiften-fold, from about $51 billion to over $770 billion at the end of 2006. Similarly, installment debt has jumped from $297 billion in 1980 to $1,520 billion today. Overall, U.S. household consumer debt (revolving, installment, student loan) has soared from $351 billion in 1980 to nearly $2,200 billion in 2006. Together with home mortgages, total consumer indebtedness is crossing the $15 trillion mark—with the vast majority--about $13 trillion--in "mortgage" debt (U.S. Treasury, 2006). This trend is especially significant since the U.S. post-industrial economy has been fueled by consumer related goods and services that account for almost 70% of America's economic activity (Gross Domestic Product). In fact, U.S. households have continued to accumulate soaring levels of consumer debt even though real wages have declined between 2000 and 2005 with some positive relief in 2006. This compares with moderate wage growth in the preceding five years (1995-2000) which demonstrates a startling lack of association between family income and household debt accumulation trends (Mishel, Bernstein, and Allegreto, 2007). See Table 6. As a consequence, the U.S. personal savings rate has plummeted to negative levels since summer 2005—the first time since the Great Depression in 1933. See Appendix B.

Several factors help to explain the record-setting debt burden of American households—especially middle class families. First, as measured by share of disposable household income, the 1980s and 1990s feature the unprecedented growth of consumer debt—from 73.2 percent of personal income in 1979 to a staggering 131.8 percent in 2004. As shown in Table 7, the overwhelming proportion (95.8%) of household debt obligations is accounted by home mortgages ((Mishel, Bernstein, and Allegreto, 2007); between 1979 and 2001, the share of discretionary household income allocated to housing jumped from 46.1 percent in 1979 to 85.0 percent in 2003 (Mishel, Bernstein, and Allegretto, 2005). This pattern reflects two key trends. First, the "democratization" of consumer credit led to an extraordinary, post-2000 recession phenomenon: the suspension of the financial laws of gravity as real family income declined while housing prices soared—average metropolitan housing prices doubled between 2000 and 2005 (cf. Manning, 2005: Ch 1). As some scholars have persuasively argued, this reflects the rational calculus of middle and upper income Americans to purchase home with the best public schools, public services, and quality of life (cf. Warren and Tyagi, 2003). Second, the enormous increase in housing costs has diverted previous discretionary income that was used for other personal or family needs. Although mortgage debt is the least expensive consumer loan, this sharp increase has squeezed the ability of middle income households to pay for lifestyle needs and/or finance unexpected expenditures such as health care or auto repairs. This deficit spending model produced high interest credit card balances that were frequently reclassified as home mortgage/equity loan debt through home refinancings and other secured debt consolidation loans. This accounts for soaring mortgage debt levels (about $3.5 trillion in 1996 to over $10 trillion today) and home equity loans accounting for over one-tenth (11.6%) of household disposable income (Mishel, Bernstein, and Allegreto, 2007). See Appendix C.

With falling property values, I expect that a distinguishing feature of the post-2005 bankruptcy reform period is that homeownership—which previously enabled families to avoid financial insolvency through unexpected robust price appreciation--will propel increasing numbers of middle income households into a much more costly and less sympathetic Federal Bankruptcy Court system. It is this failure to reform the existing consumer bankruptcy system—especially the traditional dichotomy of either repaying all (Chapter 13) or little/none (Chapter 7) that fails to recognize the reality of a new group of middle income debtors. This trend became apparent in the late 1990s when

robust economic growth and falling underemployment rates coincided with soaring bankruptcy rates which many scholars directly and indirectly attribute to rising credit card debt and interest rate levels (Ausubel, 1997; Sullivan, Warren, and Westbrook, 2000; Manning, 2000). See Appendix E.

First, the soaring growth of unsecured credit card debt takes off in the mid-1980s and is accompanied by the dramatic increase in consumer bankruptcies; between 1985 and 1990, consumer bankruptcy filings more than doubled from 343,099 to 704,518. In the aftermath of the 1989-91 recession, consumer bankruptcy filings closely follow the effect of rising unemployment through 1992 (steadily rising to 946,783) and then fall moderately with declining unemployment rates through 1995 (843,941). In 1995, however, consumer bankruptcy filings exhibit a profoundly different relationship with fluctuations in the rate of unemployment. Indeed, this underscores the second salient feature of contemporary American bankruptcy filing trends: an inverse correlation with unemployment levels. That is, the robust economic expansion of the late 1990s, which generated over 220,000 new jobs each year, produced a substantial drop in U.S. unemployment AND a sharp increase in U.S. consumer bankruptcy filings. This historically unprecedented relationship persisted through 1998 when bankruptcies registered an all-time high of 1,418,954.

Since 1999, the traditional relationship between macro-economic conditions and consumer bankruptcy resumed, as filings fell to 1,376,077 in 2001 and then steadily rose to1,493,461 in the aftermath of the 2000 recession. Following the sluggish economic recovery, however, consumer bankruptcies have risen to new record highs of 1,638,804 in 2003 and 1,624,272 in 2004 while unemployed has dipped (U.S. Bankruptcy Courts, 2005). The dramatic increase in consumer bankruptcy rates is underscored when the number of eligible bankruptcy filers per capita is calculated during this period. Between 1985 and 2004, it soared from less than 200 filings per 100,000 to over 1,000 per 100,000.

Today, we will see the emergency of an increasingly financially fragile group of middle income households with high levels of debt being forced through rising credit card interest rates and aggressive debt collection policies into bankruptcy debt relief programs. At the Center for Consumer Financial Services at the Rochester Institute of

Technology, we are currently conducting a pilot "Responsible Debt Relief" project in Texas and California that examines the debt accumulation experiences and ability of what we call the "near bankrupt" families to satisfy a creditor approved, debt payment program (Manning, 2007b). These families could qualify for Chapter 7 bankruptcy relief but would prefer to pay somewhere between ¾ to 1 ¾ percent of their current outstanding consumer debt through a lawyer supervised, three-year repayment program that could recover from 20% to 45% of their total, unsecured consumer debts over a three-year period. Significantly, such a program would not entail any creditor litigation/collection expenses and the average return is comparable to the price that major banks resell their Chapter 13 bankruptcy repayment obligations in the secondary market.

Although this project has received approval from the Utah state legislature and Governor Huntsman, and a major credit card issuer affirmed that it would return a higher yield to the bank, we have not received an enthusiastic response from the credit card issuing companies. If the realities of this new heavily indebted household are not addressed by the bank/debt collection practices, we will see a domino effect on the forced sale/foreclosure of residential homes and sharp rise in the consumer bankruptcy rate. Furthermore, these "near bankrupt" households that are exposed to sharply rising and capricious credit card pricing policies, may increasingly find that the bankruptcy court is their inevitable destination—not necessarily due to higher debt levels but due to sharply rising credit card interest rates—which will make it even more difficult to make their minimum payments after paying for rising mortgage payments. For these reasons, we are beginning a small pilot project in California that will demonstrate that a nonadversial debt collection policy—in partnership with major banks--will yield higher payments to unsecured creditors while enabling families to retain their homes and help to stabilize an increasingly weak housing market.

Assessing the Consumer Lending Revolution: Rising Tides and Sinking Ships

The distinguishing features of the deregulation of consumer financial services include: (1) the profound shift in bank lending activities from corporate to consumer loans, (2) fundamental transformation of the industry structure (consolidation, conglomeration), dominant institutional form (conglomerate such as Citigroup), and geographic location, (3) profound shift from state to national regulatory system (US

Congress, Office of Comptroller of the Currency) with the ascension of Federal Preemption (Manning, 2003(c) Furletti, 2004; Lander, 2004), (4) dramatic increase in the aggregate levels of household debt, (5) sharp increase in the inequality of the cost of unsecured consumer loans such as credit cards (especially in comparison to installment loans), (6) institutional pressure to continue rapid growth of unsecured consumer loans by expanding into new demographic markets such as students, seniors, and the working poor; and (7) the historically unprecedented growth of consumer bankruptcies which has produced a more stringent statutory reform—a trend counter to the rest of the world.

Over the last 25 years of banking deregulation, bank underwriting standards and the cost of unsecured consumer loans have changed dramatically. Today, household debt "capacity" is stretched by extended repayment schedules (from 15 to 40 year mortgages) and, more instructively, by multiple sources of household wealth/revenues: two or more incomes, asset formation through home ownership (housing equity), and wealth accumulation through stock market investments. Unlike the pre-1980 regulated era, American households can leverage three or more sources of revenue to qualify for secured and unsecured consumer loans. This explains how aggregate household debt—as measured by its share of disposable income—has climbed an extraordinary 56.4 percent over this period: from 73.2 percent in 1979 to 114.5 percent in 2003 and 131.8% in 2004 (Mishel, Bernstein, and Allegretto, 2005). The major problem for most families is that it is easier to secure a loan than it is to generate greater revenues (with the exception of selling one's home which is yield a much lower return than a year ago). For households perilously close to insolvency, both large (job loss, medical care, divorce) and small (rising interest rates, high energy costs, medications) economic factors can precipitate a financial collapse.

For consumers in debt extremus, banking deregulation has produced a plethora of new and recently less costly financial products for middle income families. Yet, it has come with a price. "Risk-based pricing" policies that enable banks to unilaterally raise the cost of credit/debt for relatively minor changes in credit worthiness, decline of state regulatory power (federal preemption) that means only the US Congress can mandate fairer pricing policies and clearer contract disclosures, imposition of mandatory binding arbitration clauses which seek to preclude class-action lawsuits which may be the only way to force banks to change their unfair policies, anti-competitive practices (against

consumers and merchants) that are leading to a new organizational structure of the major credit card associations (MasterCard, Visa) as the become private corporations and limit the liability of their member banks, and a clear lack of regulatory and financial accountability for personal consumer information. Indeed, my recent experience with Citibank highlights the one-sided nature of the pricing system of the credit card industry. In December, my payment was received late for the very first time. Upon contacting the company, I was told that they had decided to raise my "fixed rate" of 3.99% to 32.24% and would not consider lowering my interest rate for five months. I immediately paid off the balance and asked them if they would reconsider the interest rate since there was no longer an outstanding balance and thus had demonstrated my credit worthiness. No, I was informed that they could not consider a review of my account for five months—regardless of the payments that had been received.

Furthermore, the credit issuing banks assured the U.S. Congress and consumer groups in 2003 that they would vigorous protect consumer information during the hearings for the reauthorization of the Fair Credit Reporting Act. Instead, we have a crisis in the failure to protect and be held accountable for the personal and financial costs of identity theft and fraudulent use of credit card accounts. The underpublicized hacking into debit card accounts of hundreds of thousand of consumers last year underscored the ease and desirability of criminal syndicates to compromise the debit card systems of several major banks. It is the responsibility of the U.S. Congress to hold one of the most profitable industries in the United States accountable for its recent shift away from consumer friendly policies—indeed its fundamental promise of consumer relationship building for the sale of multiple financial services products—that underlies the conglomerate structure and cross-marketing synergies of the ascent of the "one-stop" financial services company.

Personal Borrowing versus Corporate Lending Responsibilities:
A Public Policy Agenda for Restoring Household Financial Stability

As we begin debate on "responsible" public policy, I propose the following albeit nonexhaustive list of issues to be pursued.

[1] Due to the conglomerate structure of money center banks, it is difficult to obtain information on credit card operations in general and state level data in particular. Credit card issuing banks with New York clients should be required to report basic

information on their state operations and activities to the New York State Banking Department on an annual basis. This would include revenues and expenses, demographic and age distributions, and subgroup categories such as consumer income groups, penalty fee accounts, and high and low interest rate accounts. Also, it is imperative that the state fund a publicly accessible research facility with all available industry and research publications/data archives related to the credit card industry in order to facilitate public research on the industry. This will assist in the long-term planning of the state economy including consumer debt-related trends.

[2] "Bait and Switch" credit card marketing policies should be defined as illegal within the State of New York. If a person submits a "pre-approved" credit application with a specific set of contract terms and is rejected, then the bank must send a disclosure that the application was denied. If the bank wishes to offer a different and less desirable (to the consumer) contract, then it must send as a separate form of correspondence.

[3] "Universal Default" provisions must be deemed illegal and any change in the terms of the contract must provide a minimum of 45 days before they take effect (rather than current 15 days) so that the consumer can secure an alternative loan if desired. Also, specific reasons for the decision to increase the annual percentage rate (APR) must be provided to the consumer as well as the conditions that the consumer must achieve to obtain a lower interest rate (lower amount of outstanding debt, percentage of credit line utilization, consecutive number of months without a late payment, etc).

[4] Consumers are granted one free credit report per Credit Reporting Agency (CRA) but are not offered a free credit score. Yet, major banks are charged only a modest fee (often less than 50 cents per report) that can adversely affect a consumer's credit score and thus is outside of his/her control. The State of New York should mandate that a consumer can request a free credit score once per year

[5] "Double-billing" cycles, residual outstanding balance calculations, and minimum payment calculations must be based on an average daily balance for the preceding 30 day billing period. There should not be a financial penalty incurred after a billing period is paid in-full.

[6] The current industry Risk-based pricing standard punishes higher risk clients with higher finance charges (APRs). As a result, additional penalty fees serve as a form of financial "double jeopardy" since credit card companies understand that many financially distressed clients can unwittingly fall into a cycle of late payments and overlimit fees that are beyond their control. Since states can not impose limits on penalty fees levied by nationally chartered banks, such a double penalty incurred by the most financially disadvantaged citizens of New York is ethically indefensible and morally repugnant. If banks wish to retain both punitive penalty policies, then a fixed term contract should be mandated (one, two or three years) whereby the interest rate will be subject to change at the end of the contract period. Such a fixed contract would permit penalty fees and thus offer a comprehensible contract for consumers to understand.

[7] The State of New York should enact a "soft" usury (finance) cap that is based on the 30-year mortgage bond market. This would incorporate the rate of inflation and provide flexibility in modifying the rate "ceiling."

[8] Introductory "teaser" interest rates on credit cards should clearly specify the standard "adjusted" rate when the low interest rate expires. And, lines of credit should be based on minimum payments calculated on the "adjusted" rather than the "teaser" rate.

[9] Banks will be required to notify New York clients if their loans have been "packaged" and resold in the form of "pooled," asset backed securities to institutional investors. These include credit card, auto, and home mortgages. Consumer must be informed about the change in their rights due to the original lenders' decision to resell their loans.

[10] "Subprime" credit cards must not charge over 10% of the specified credit line in set-up fees to a maximum of $75. Subprime credit card issuers must not be allowed to offer a second credit card if the credit line of the first credit card is less than $1000.

[11] The conflict of interest in colleges and universities over the "preferred" or "exclusive" provider of credit cards and student loans must be rigorously examined. Any employee of a college or university that receives a salary or consulting stipend from a

financial services company that has a contract with the university must be publicly reported. Also, any exclusive contract with a college—such as a credit card marketing agreement—must disclosed the competing bids from other credit card companies to ensure that consumers are not duped into thinking that they are receiving a competitive offer.

[12] All exclusive credit card contracts with public universities in the State of New York must be annually reported to the New York State Banking Department. All revenues from the contract must be publicly disclosed and a minimum of 25% must be dedicated to on-campus financial literacy/education and/or debt consolidation programs for university students. If a public university refuses to abide by this revenue distribution policy (from its credit card contract), then the annual appropriation from the state should be reduced by the amount of this income from the credit card contract.

[13] All students that are enrolled in a state college or university are provided with a bank-issued credit card. However, if they do not have the financial resources to pay for their charges (excluding student loans) or their parents/guardians will not co-sign the loan agreement, then the credit line will be limited to $500. If the student is not delinquent, then the line of credit can be raised each year by $500 until it reaches a cap of $2500. These students would not be eligible for other credit card offers in the State of New York.

[14] One of the fastest growing sectors of the financial services industry is consumer debt purchase/debt collections. Especially for low-income families, the number of abuses is increasing rapidly. One way to indirectly reduce the incentive of banks to “over lend” to consumers that are not capable of repayment is to increase the New York State homestead exemption--from $25,000 to $50,000 per person. This will reduce the marketing pressure on households to borrow over 100% of the value of their homes and thus reduce the ability of credit card companies to collect if a family files for Chapter 7 bankruptcy. It will also improve the ability of families with little home equity to retain their homes during the negotiations with the bankruptcy court.

[15] One of the problems of banking deregulation and the rise of financial services conglomerates is that there is a financial incentive for banks to invest in higher income communities where individual clients are more likely to purchase a larger bundle

of financial services (credit cards, auto, home loans, insurance, investments). The New York State Banking Department should report on the disparity in banking services by income of communities on a bi-annual basis (staggered). Banks should be held accountable to their Community Reinvestment Act (CRA) obligations and credit card loans should NOT be considered as a component of loan portfolios in disadvantaged communities.

[16] The State of New York Banking Department should monitor the lending practices of "quasi" banks that are emerging in low-income communities such as the Rapid Advance Loans (RALs) of tax preparers and "payday" loans of pawnshops and check cashing stores. The rapid growth of H&R Block "banks" in underserved communities merits further analysis.

[17] Due to the proximity of Canada to Upstate New York communities, the State of New York should monitor currency conversion fee rates of credit card companies and promote and "international" card that would limit currency fees by allowing an annual, fixed membership fee.

[18] Overdraft fees incurred from the use of debit cards must be limited to the cost of credit based on the amount of borrowed funds rather than a flat fee regardless of the amount of credit extended. For example, if a bank/credit card company processes a transaction that exceeds the available funds, for example $5.00, then the legal fee must be based on the finance charges for the borrowed amount rather than a per transaction fee of $29.00.

[19] Consumer information sharing provisions of credit card accounts for clients of the State of New York must be modified to opt-out by default rather than the current consumer "unfriendly" policy of opt-in by default.

[20] Banks, credit card associations, and credit card processing companies must provide financial compensation to consumers if they fail to adequately safeguard consumer financial information. They should be required to purchase consumer insurance/indemnity policies in order to limit the financial costs to consumers that are victims of security breaches as well as subsequent identity fraud.

Bibliography

The American Banker, "Largest Banks, " 2003 at www.americanbanker.com/

Lawrence M. Ausubel. (1997). "Credit card defaults, credit card profits, and bankruptcy," *American Bankruptcy Law Journal*, Vol. 71, Spring, 249-270.

Lawrence M. Ausubel. (1991). "The Failure of Competition in the Credit Card Market," *American Economic Review*, Vol. 81, No. 1, March, 50-81

John M. Barron and Michael E. Staten. (2004). Usage of Credit Cards Received through college-marketing programs. *Journal of Student Financial Aid.* Vol 34, 3, 7-28.

Bell, Daniel, Cultural Contradictions of Capitalism, New York, Basic Books, 1996.

Braun, Denny, The Rich Get Richer: The Rise of Income Inequality in the United States and the World, Chicago: Nelson-Hall Publishers, 1997.

Brown, Jonathan, Financial Deregulation: The Need for Safeguards, Washington, DC: Essential Information Inc, 1993.

Bucks, Brian K., Arthur B. Kennickell, and Kevin B. Moore, "Recent Changes in U.S. Family Finances: Evidence From the 2001 and 2004 Survey of Consumer Finances," Federal Reserve Bulletin, (2006):1-38.

Calder, Lendol, Financing the American Dream: A Cultural History of Consumer Credit, Princeton: Princeton University Press, 1999.

Card Industry Directory 2005 Edition, Thompson Publishers, June 2006.

CardWeb.com. "Free Loaders," April 8, 2005.

Cohen, Lizabeth, A Consumers' Republic: The Politics of Mass Consumption in Postwar America, New York: Alfred A. Knopf Press, 2003.

Citizens for Tax Justice, "Fiscal 2003 Deficit Sourced as Income Taxes Fell to Lowest Level in Six Decades," Washington, D.C, 2003.

Condon, Bernard, "Fools Paradise," Forbes, February 14, 2005: 23-26.

Cross, Garry, An All-Consuming Century: Why Commercialism Won in Modern America, New York: Columbia University Press, 2000.

Daly, James J., "A little Help From Uncle Sam, Government Intervention Never Looked Better Than It Did in 2001," Credit Card Management, March 2002, pp. 3-7.

Der Hovanesian, Mara, "Tough Love for Debtors," BusinessWeek, April 14, 2005; 37-41.

Demos and Center for Responsible Lending, "The Plastic Safety Net: The Reality Behind Debt in America," New York: Demos Final Report, 2005.

Draught, Tamara and Javier Silva, "Borrowing to Make Ends Meet: The Growth of Credit Card Debt in the 90s," New York: Demos Final Report, 2003.

Dymski, Gary, A., The Bank Merger Wave: The Economic Causes and Social Consequences of Financial Consolidation, Armonk, NY, M.E. Sharpe, 1999.

Evans, David and Richard Schmalensee, Paying with Plastic The Digital Revolution in Buying and Borrowing, Cambridge: MIT Press, 2005.

Ewen, Stuart, Captains of Consciousness: Advertising and the Social Roots of he Consumer Culture, New York: Basic Books, 2001.

Federal Deposit Insurance Corporation (FDIC), Evaluating the Consumer lending Revolution, September 23, 2003.

Federal Deposit Insurance Corporation (FDIC), The FDIC Quarterly Banking Profile, "Commercial Bank Performance—Second Quarter 2003," pp.1-2 at www.fdic.gov.

Fox-Piven, Frances and Richard A. Cloward, The Breaking of the American Social Compact, New York: New Press, 1997.

Furletti, Mark, "Debate Over the National Bank Act and the Preemption of State Effots to Regulate Credit Cards," Temple Law Review, Volume 77 [c], 2004: 1-39.

Galbraith, James K., Created Unequal: The Crisis in America Pay, Chicago: The University of Chicago Press, 2002.

Hawke, Jr., John D., "Remarks by Comptroller of the Currency Before the American Bankers Association," New York, New York, October 4, 2004.

Hudson, Michael (ed), "Banking on Misery," special issue of Southern Exposure, summer 2003.

Karger, Howard, Shortchanged: Life and Debt in the Fringe Economy, Berrett-Koehler Publishers, 2005.

Langley, Monica, Tearing Down the Walls (Wall Street Journal Books, 2003).

Lears, Jackson, Fables of Abundance: A Cultural History of Advertising in America, New York: Basic Books, 1994

Leicht, Kevin T. and Scott Fitzgerald, Post-Industrial Peasants: The Illusion of Middle Class Prosperity, New York, Worth Publishers, 2006 (forthcoming).

Luden, Jennifer, "Credit Card Companies Target Kids," *All Things Considered,* National Public Radio, February 6, 2005, http://www.npr.org/templates/story/story.php?storyId=4488488.

Macey, Jonathan R. and Geoffrey P. Miller, Banking Law and Regulation, New York: Aspen Publishers, 2000.

Mandell, Lewis, The Credit Card Industry: A History, Twayne Publishers, 1990.

Ronald J. Mann, Charging Ahead: The Growth and Regulation of Payment Card Markets (Cambridge University Press, 2006).

Mann, Bruce H., Republic of Debtors, Bankruptcy in the Age of American Independence, Cambridge: Harvard University Press, 2002.

Manning, Robert D., "Neoliberalism and the Global Expansion of the Consumer Economy: The Decline of US Economic Hegemony?" in Robert D. Manning (ed.), Globalization and Democracy: American Leadership or Autocracy in the New World Order?), Rochester, Carey Rochester Institute of Technology Press, forthcoming 2007a.

Manning, Robert D., "THE NEAR BANKRUPT: Responsible Debt Relief and The Plight of the Financially Distressed in America," working project, Center for Consumer Financial Services, Rochester Institute of Technology, 2007b.

Manning, Robert D., and Dana Smith, "Credit Cards and African American Students: A Case-Study of College Seniors at Fisk University, working paper, RIT: Center for Consumer Financial Services, forthcoming 2007.

Manning, Robert D., LIVING WITH DEBT: A Life Stage Analysis of Changing Attitudes and Behaviors, Charlotte, N.C.: LendingTree.com, 2005

Manning, Robert D. and Ray Kirshak, "Credit Cards on Campus: Academic Inquiry, Objective Empiricism, or Advocacy Research?," Journal of Student Financial Aid, Volume 35, No. 1 (Winter 2005): 39-48.

Manning, Robert D., Prepared Statement and response to questions, *The Importance of Financial Literacy Among College Students.* Hearing Before the Committee on Banking, Housing, and Urban Affairs, United States Senate, September 5, 2002. Washington, D.C.: U.S. Government Printing Office, June 2003(b): 14-18, 41-53.

Manning, Robert D., "Perpetual Debt, Predatory Plastic: From Company Store to the World of Late Fees and Overlimit Penalties," Michael Hudson (ed.), Special Issue on Predatory Lending, "Banking on Misery," Southern Exposure, A Journal of Southern Studies, June 2003(a):15-19.

Manning, Robert D., Credit Card Nation: The Consequences of America's Addiction to Credit, New York: Basic Books, 2000.

Mayer, Caroline E., "Girls Go From Hello Kitty To Hello Debit Card; Brand's Power Tapped to Reach Youth," The Washington Post, October 3, 2004.

Mishel, Lawrence, Jared Bernstein, and Heather Boushey, The State of Working America 2002-2003, Ithaca: Cornell University Press, 2003.

Mishel, Lawrence, Jared Bernstein, and Sylvia Allegreto, The State of Working America 2005-2006, Ithaca: Cornell University Press, 2007

Nocera, Joseph, A Piece of the Action: How the Middle Class Joined the Money Class, New York, Simon & Schuster, 1994.

Organization for Economic Cooperation and Development, Economic Outlook Report, 2003.

Peterson, Christopher, Taming the Sharks: Towards a Cure for the High-Cost Credit Market, Akron, University of Akron Press, 2004.

Piven, Frances Fox and Richard A. Cloward, The Breaking of the American Social Compact, New York, New Press, 1997.

Punch, Linda, "Fading Pay," Credit Card Management, June 2003: 40-43.

Queenan, Joe, "Only One Life to Spend and Spend," The New York Times, December 1, 2003.

Sanders, Bernie. "Modern Day Loan Loan Sharks Disguised in Plastic," The Atlanta Journal-Constitution, December 3, 2004.

Schor, Juliet B., The Overspent American: Why We Want What We Don't Need, New York: Harper Perennial, 1998.

Schudson, Michael, Advertising, The Uneasy Persuasion Its Dubious Impact on American Society, New York: Basic Books, 1986.

Skeel, David A. Debt's Dominion, A History of Bankruptcy Law in America, Princeton: Princeton University Press, 2001.

Stavins, Johanna, "Credit Card Borrowing, Delinquencies, and Personal Bankruptcy," New England Economic Review (July/August 2000):1-30.

Sullivan, Theresa A., Elizabeth Warren and Jay Lawrence Westbrook, The Fragile Middle Class: Americans in Debt, Yale University press, 2001.

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

Tucker, David M., The Decline of Thrift in America: Our Cultural Shift from Saving to Spending, New York: Praeger Publications, 1991.

Uchitelle, Louis, "Why Americans Must Keep Spending," The New York Times, December 1, 2003.

U.S. Federal Reserve, Historical Data, 2003 at fedreserve.gov.

U.S. Federal Reserve Board, Survey of Consumer Finances, 1995, 1998, 2001, and 2004.

U.S. Federal Reserve Board, The Profitability of Credit Card Operations of Depository Institutions, An Annual Report submitted to U.S. Congress, June 2006.

U.S. Federal Reserve Board, Report To Congress On the Practices of the Consumer Credit Industry In Soliciting and Extending Credit and Their Effects on Consumer Insolvency, Washington, D.C: U.S. Federal Reserve, June 2006 http://www.federalreserve.gov/boarddocs/rptcongress/bankruptcy/bankruptcybillstudy200606.pdf

U.S. Department of Treasury, "OCC Alerts National Banks on Unacceptable Credit Card Marketing and Account Management Practices," Advisory from Office of the Comptroller of the Currency, September 14, 2004.

U.S. General Accountability Office (GAO), Credit Cards, Increased Complexity In Rates and Fees Heightens Need for More Effective Disclosures to Consumers, Washington, D.C.: GAO, 2006. http://www.gao.gov/new.items/d06929.pdf

Warren, Elizabeth, "The Market for Data: The Changing Role of Social Sciences in Changing the Law, The Wisconsin Law Journal, (2002):1-42.

Warren, Elizabeth and Amelia Warren Tyagi, The Two-Income Trap, New York: Basic Books, 2003.

Table 1

Total U.S. Consumer Bank Credit Cards, Charge Volume, and Outstanding Balances, 1994-2005

Year	Bank Cards[2]	Percent Increase	Charge Volume[3]	Percent Increase	Account Balances[3]	Percent Increase
2005	694.7	5.4%	$1,618.0	11.4%	$713.5	3.2%
2004	659.4	7.0%	$1,451.8	9.9%	$691.2	4.6%
2003	616.1	1.5%	$1,305.6	n/a	$661.0	3.6%
2002	606.9	-18.3 %	$1,426.4	4.7%	$640.2	5.4%
2001	743.0	10.0%	$1,369.3	9.5%	$605.0	9.3%
2000	675.3	7.9%	$1,250.4	14.1%	$554.5	12.6%
1999	626.0	20.4%	$1,095.7	12.5%	$491.6	8.8%
1998	519.9	5.4%	$974.0	9.8%	$451.6	2.9%
1997	493.3	3.8%	$887.0	11.1%	$439.0	7.2%
1996	475.3	7.9%	$798.1	13.9%	$409.5	14.2%
1995	440.5	10.2%	$700.9	20.5%	$358.6	24.7%
1994	399.9	---	$581.5	22.4%	$287.5	23.8%

[1]Universal credit cards include Visa, MasterCard, American Express, and Discover. Excludes retail and other proprietary or company specific credit cards.

[2]Millions of universal bank card accounts.

[3]Billions of annual charges.

[4]Outstanding balances at end of calendar year.

SOURCE: Card Industry Directory (Thompson Publishers, 2006), pp. 14-15.

Table 2

Growth of Outstanding Consumer Debt in the United States – 1980-2005 (billions of dollars)

YEAR	Total	Revolving	Non-Revolving	Revolving as a % of Non-Revolving
1980	351.9	55..0	297.0	18.5%
1981	371.3	60.9	310.4	19.6%
1982	389.8	66.4	323.5	20.5%
1983	437.1	79.0	358.0	22.1%
1984	517.3	100.4	416.9	24.1%
1985	599.7	124.5	475.3	26.2%
1986	654.7	141.0	513.7	27.5%
1987	686.3	160.9	525.5	30.6%
1988	731.9	184.6	547.3	33.7%
1989	794.6	211.2	583.3	36.2%
1990	808.2	238.6	569.6	41.9%
1991	798.0	263.8	534.3	49.4%
1992	806.1	278.5	527.7	52.8%
1993	865.7	309.9	555.7	55.8%
1994	997.1	365.6	631.6	57.9%
1995	1,141.0	443.5	697.5	63.6%
1996	1,242.9	499.6	743.2	67.2%
1997	1,320.1	536.7	783.4	68.5%
1998	1,417.3	578.0	839.3	68.9%
1999	1,530.4	606.8	923.6	65.7%
2000	1,707.4	678.5	1,028.8	65.9%
2001	1,838.8	716.6	1,122.2	63.9%
2002	1,925.5	736.4	1,189.2	62.0%
2003	2,015.3	758.3	1,257.1	60.7%
2004	2,110.0	793.5	1,316.6	58.8%
2005	2,295.6	826.6	1,469.0	56.4%
2006	2,389.7	872.6	1,517.0	57.5%

Table 3

The 10 Largest Credit Card Issuers in the United States: 2004 and 2005

		Outstandings		Percent of Total Market	
		Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2004
1.	JPMorgan Chase & Co.	$138,878,000,000	$135,370,000,000	19.5%	19.6%
2.	Citigroup, Inc.	$136,500,000,000	$139,600,000,000	19.1%	20.2%
3.	MBNA America[1]	$104,947,821,000	$101,900,000,000	14.7%	14.7%
4.	Bank of America	$60,790,331,000	$58,629,000,000	8.5%	8.5%
5.	Capital One Financial Corp.	$49,463,522,000	$48,609,571,000	6.9%	6.9%
6.	Discover Financial Services Inc.	$46,936,000,000	$48,261,000,000	6.6%	7.0%
7.	American Express Centurion Bank	$27,172,631,000	$24,709,614,740	3.8%	3.6%
8.	HSBC Credit Card Services	$26,200,000,000	$19,670,000,000	3.7%	2.8%
9.	Washington Mutual Bank	$19,472,000,000	$18,100,000,000	2.7%	2.6%
10.	Wells Fargo	$17,392,978,230	$15,070,938,783	2.4%	2.2%
	Top 10 Issuers total outstandings	$627,753,283,230	$609,920,124,523	88.0%	
	Total General Purpose Card Market	$713,500,000,000	$691,200,000,000		

[1]Bank of America acquired MBNA in 2005

Table 4

Bank-Issued Consumer Credit Cards, U.S. and Worldwide: 1996-2005

(Number of cards, in millions)

	Visa		MasterCard		American Express		Discover	Total		Private-label
	U.S.	World	U.S.	World	U.S.	World	U.S.	U.S.	World	Store Cards
1996	228.1	574.2	169.4	304.9	29.2	41.5	48.6	475.3	919.2	468.9
1997	234.0	593.1	179.7	333.3	29.6	42.7	50.0	493.3	1019.1	511.5
1998	248.5	655.8	196.0	356.9	27.8	42.7	47.6	519.9	1103	557.5
1999	336.0	731.9	212.0	379.0	29.9	46.0	48.1	626.0	1205	579.5
2000	353.6	804.4	235.1	437.8	33.3	51.7	53.3	675.3	1347.2	582
2001	376.6	900.5	274.7	519.9	34.6	55.2	57.1	743.0	1532.7	585
2002	258.4	999.2	266.9	591.9	35.1	57.0	46.5	606.9	1693.7	585
2003	266.9	1084.1	266.7	632.4	36.4	60.5	46.1	616.1	1823.1	555.8
2004	298.0	1226.0	271.5	679.5	39.9	65.4	50.0	659.4	1970.9	500.2
2005	352.0	1400.0	277.0	749.2	43.0	71.0	49.5	694.7	2220.2	475.2

Notes: U.S. Vis/MasterCard figures are credit only. World numbers include credit and debit. Discover reported accounts; card numbers are CID estimates. Private-label store card figures are CID estimates.

Source: Visa International, MasterCard International, American Express Co., Morgan Stanley, Card Industry Directory

Notes: U.S. Visa/MasterCard figures are credit only. World numbers include credit and debit. Discover reported accounts; card number are CID estimates. Private-label store card figures are CID estimates.

Source: Visa International, MasterCard International, American Express Co., Morgan Stanley, Card Industry Directory

Table 5

Bank Card Profitability, 2005 and 2004

($ figures in billions)

REVENUES	2005	Change from 2004	As % of Avg. Outstandings	2004	As % of Avg. Outstandings
Interest	$71.13	6%	11.75%	$67.33	11.62%
Intercharge	$20.62	12%	3.40%	$18.47	3.19%
Penalty Fees	$7.88	-10%	1.30%	$8.81	1.52%
Cash-Advance Fees	$5.26	9%	0.87%	$4.82	0.83%
Annual Fees	$3.26	0%	0.54%	$3.27	0.56%
Enhancements	$0.85	9%	1.14%	$0.78	0.13%
Total	**$109.00**	**5%**	**18.00%**	**$103.44**	**17.86%**
EXPENSES					
Cost of Funds	$27.25	7%	4.50%	$25.49	4.40%
Chargeoffs	$35.13	-4%	5.80%	$36.40	6.30%
Operations/Marketing	$27.25	2%	4.50%	$26.65	4.60%
Fraud	$0.85	31%	0.14%	$0.65	0.11%
Total	**$90.48**	**1%**	**14.94%**	**$89.30**	**15.41%**
Pre-Tax Profit/ROA	$18.51		3.06%	$14.18	2.45%
Taxes*	$6.48			$4.96	
After-Tax Profit/ROA	**$12.03**	**30.55%**	**1.99%**	**$9.22**	**1.59%**
Avg. Outstandings	**$605.66**	**4.5%**		**$579.43**	

Taxes calculated at 35%. Note: Data pertain only to Visa and MasterCard issuers. Cost of Funds assumes that most issuers split funding among short, intermediate and long-term fund availability that would have been locked in at lower rates.

Source: Card Industry Directory, 2006

Table 6

Real Family Income Growth by Income Quintiles, 1995-2004

(decomposed)

	Income Quintiles				
	Lowest	Second	Third	Fourth	Highest
1995 - 2000					
Income Growth	13.2%	10.8%	11.1%	11.9%	13.8%
Earnings	12.7%	10.2%	11.3%	11.1%	12.8%
Annual Hours	7.7%	2.4%	4.1%	2.7%	0.6%
Hourly Wage	5.0%	7.8%	7.1%	8.4%	12.3%
Other Income	0.5%	0.6%	-0.2%	0.8%	1.0%
2000 - 2004					
Income Loss	-7.1%	-4.4%	-2.1%	-1.2%	-2.2%
Earnings	-6.0%	-3.9%	-2.6%	-1.8%	-0.9%
Annual Hours	-5.2%	-3.9%	-3.6%	-3.2%	-1.7%
Hourly Wage	-0.8%	-0.1%	1.0%	1.4%	0.8%
Other Income	-1.1%	-0.4%	0.5%	0.6%	-1.3%

Source: B. Wolff (2006), cited in Laurence Mishel, Jared Bernstein and Sylvia Allegretto, The State of Working America, (ILR Press), p. 41.

Table 7

US Household Debt by Share of Disposable Income and Type of Consumer Debt, 1949-2004 (percent)

	As share of disposable personal income				**As share of assets**[1]	
	All Debt	*Mortgage*	*Home Equity Loans*[2]	*Consumer Credit*	*All Debt*	*Mortgage*
1949	32.9%	19.6%	n.a.	10.2%	6.1%	15.0%
1967	69.1	42.5	n.a.	18.8	12.0	30.8
1973	66.9	39.6	n.a.	19.7	12.6	26.3
1979	73.2	46.1	n.a.	19.5	13.7	27.5
1989	86.4	57.1	n.a.	19.8	14.8	31.4
1995	94.3	62.4	6.2%	20.7	15.8	40.2
2000	106.8	70.3	9.2	22.7	15.4	40.2
2003	114.5	85.0	10.9	24.0	18.3	44.1
2005	131.8	95.8	11.6	24.2	18.6	40.1
Annual percentage point change						
1949-59	2.8	1.9	n.a.	0.7	0.4	1.0
1959-73	0.4	0.0	n.a.	0.2	0.2	0.1
1973-79	1.1	1.1	n.a.	0.0	0.2	0.2
1979-89	1.3	1.2	n.a.	-0.1	0.2	0.6
1989-00	1.4	0.7	0.0	0.4	0.0	0.4
2000-05	5.9	5.9	0.8	0.0	0.7	0.5

[1]All debt as a share of assets; mortgage debt as a share of real estate assets.

[2]Data for 1989 refer to 1990.

SOURCE: Laurence Mishel, Jared Bernstein, and Sylvia Allegretto, The State of Working America, (ILR Press, 2007), p. 269.

Table 8

Household Assets and Liabilities by Wealth Class in the United States:

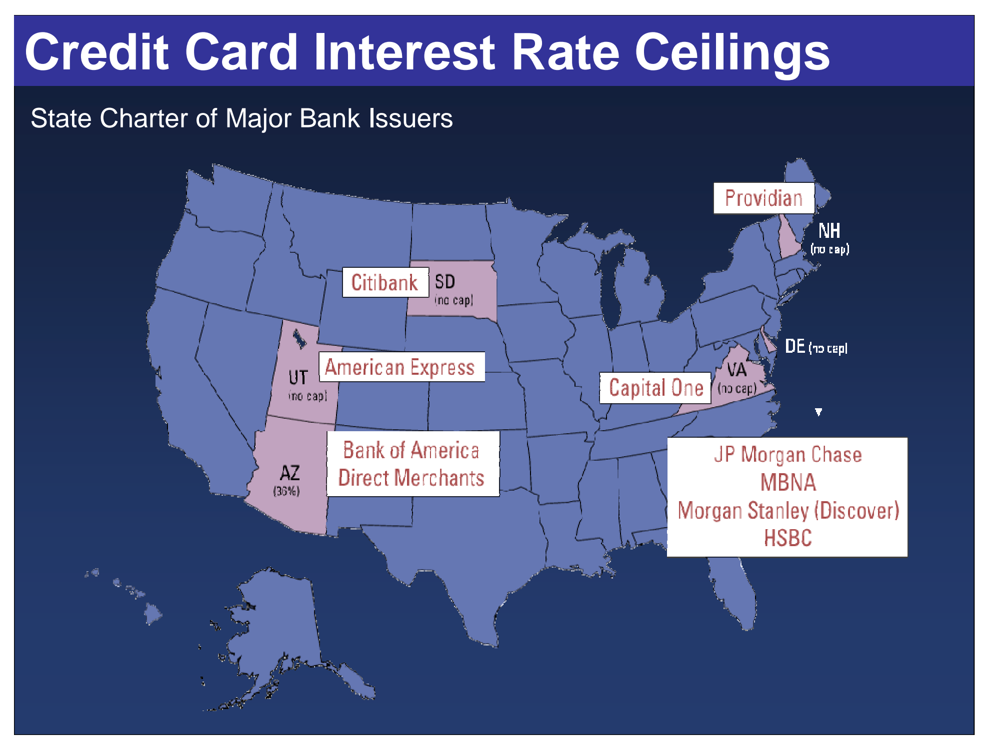
1962-2004 (thousands of 2004 dollars)

Assets & Liabilities	Top 1.0%	Top 9.0%	Next 10%	Next 20%	Middle 20%	Bottom 40%	Average
Stocks[1]							
1962	$2,617.4	$133.9	$14.9	$4.8	$1.2	$0.3	$41.6
1983	1699.5	109.7	13.1	5.0	1.7	0.4	30.1
1989	1,282.8	141.0	27.6	9.7	4.0	0.7	31.7
1998	2,743.7	316.7	86.4	29.9	10.0	1.8	78.0
2001	3,568.4	512.3	131.9	41.3	12.0	1.8	106.3
2004	3,276.5	413.4	105.6	31.3	7.5	1.4	89.0
All other assets							
1962	$2,847.4	$491.6	$233.6	$129.9	$70.3	$16.7	$142.0
1983	6,540.8	849.0	343.2	176.6	86.9	18.3	235.8
1989	9,090.9	933.3	368.9	201.5	96.8	21.0	279.3
1998	8,649.8	897.7	360.0	196.8	106.0	25.9	267.3
2001	9,449.5	1,221.1	438.4	234.6	113.5	26.6	328.3
2004	12,060.6	1,524.7	573.7	305.8	148.4	35.2	420.5
Total debt							
1962	$193.3	$37.8	$28.0	$29.0	$28.7	$16.1	$25.9
1983	444.5	74.0	53.5	36.4	28.3	13.6	34.9
1989	484.7	98.7	53.3	48.2	37.0	26.1	46.3
1998	307.1	114.0	71.7	51.5	49.7	26.5	51.7
2001	325.8	122.3	79.9	60.5	50.5	25.5	54.5
2004	566.8	174.2	103.8	93.8	74.1	34.4	79.1
Net Worth							
1962	$4,271.5	$587.7	$220.4	$105.7	$42.8	$0.9	$157.7
1983	7,795.8	884.7	302.8	145.2	60.3	5.1	231.0
1989	9,889.0	975.6	343.2	163.0	63.9	-4.4	264.6
1998	11,086.4	1,100.3	374.7	175.3	66.3	1.2	293.6
2001	12,692.1	1,611.0	490.3	215.3	75.0	2.9	380.1
2004	14,770.4	1,764.0	576.3	243.4	81.8	2.2	430.5

[1]All direct and indirect stock holdings.

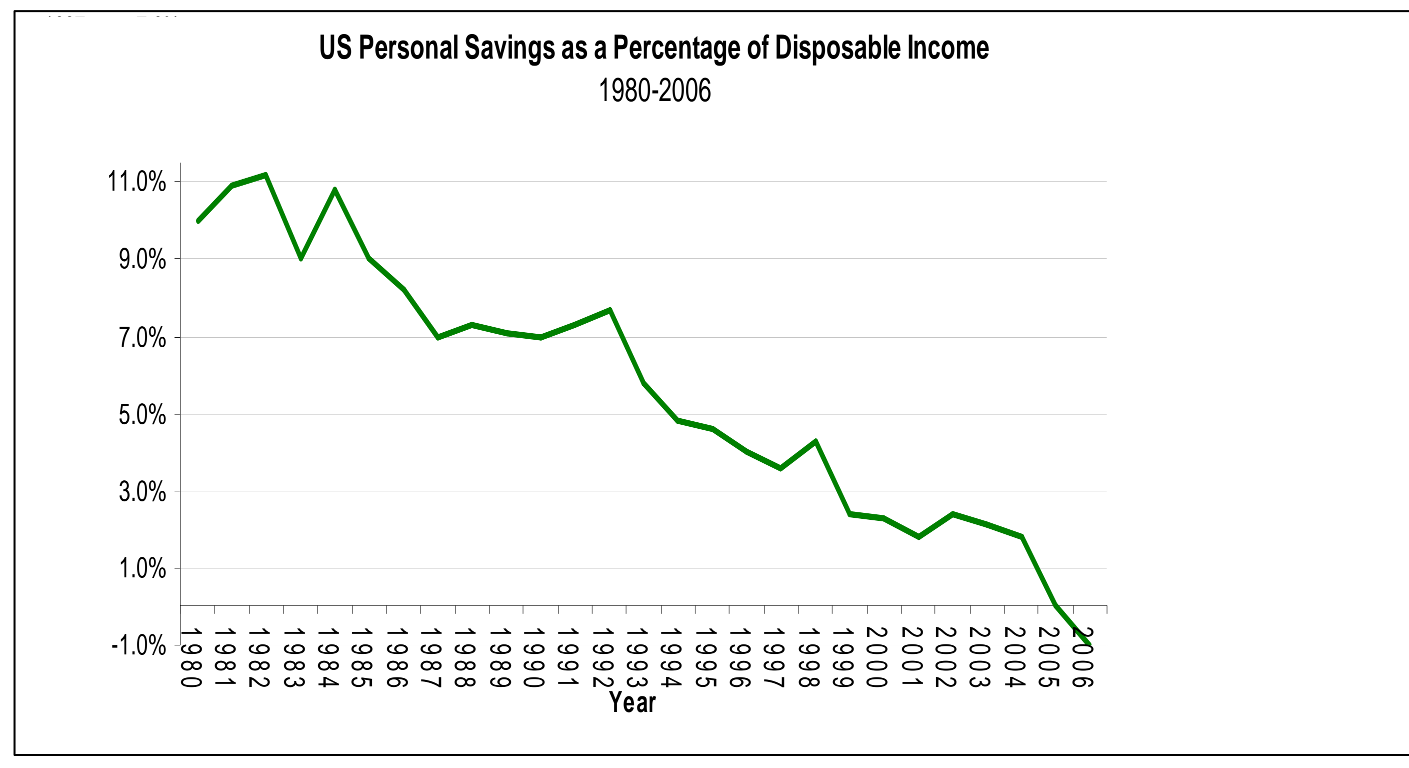
SOURCE: Unpublished analysis of Survey of Consumer Finance data by Edward B.Wolff (2004), cited in Laurence Mishel, Jared Bernstein, and Sylvia Allegretto, The State of Working America, (ILR Press, 2005), p. 289.

Appendix A

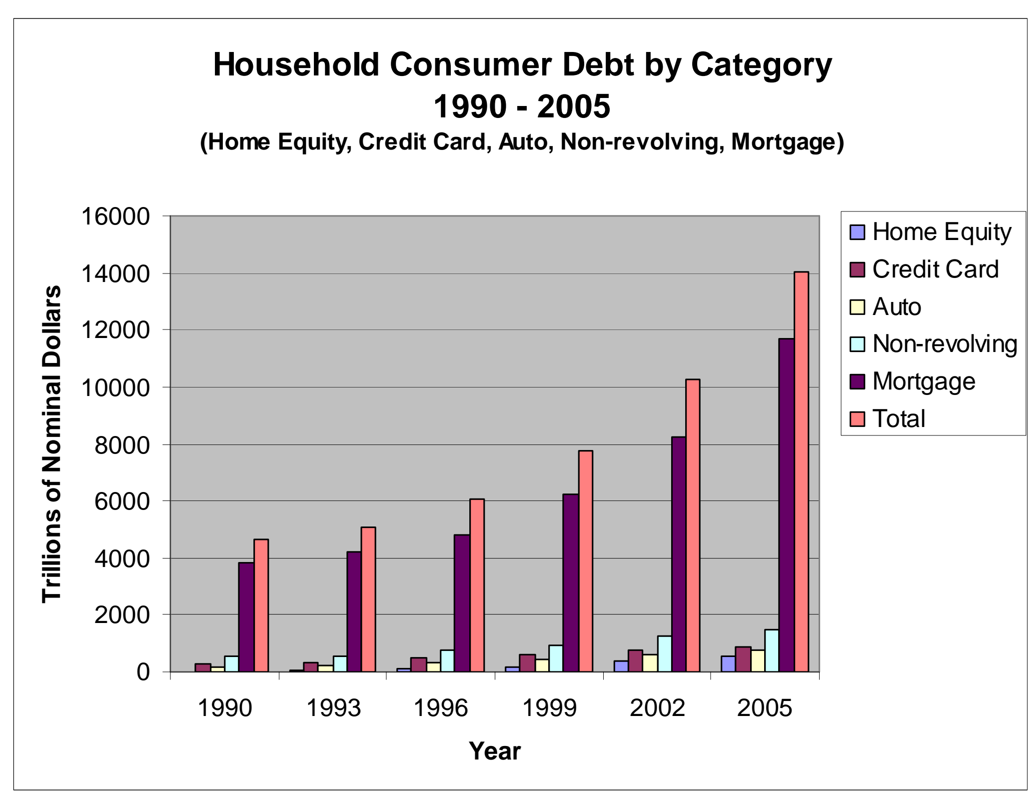


Appendix B

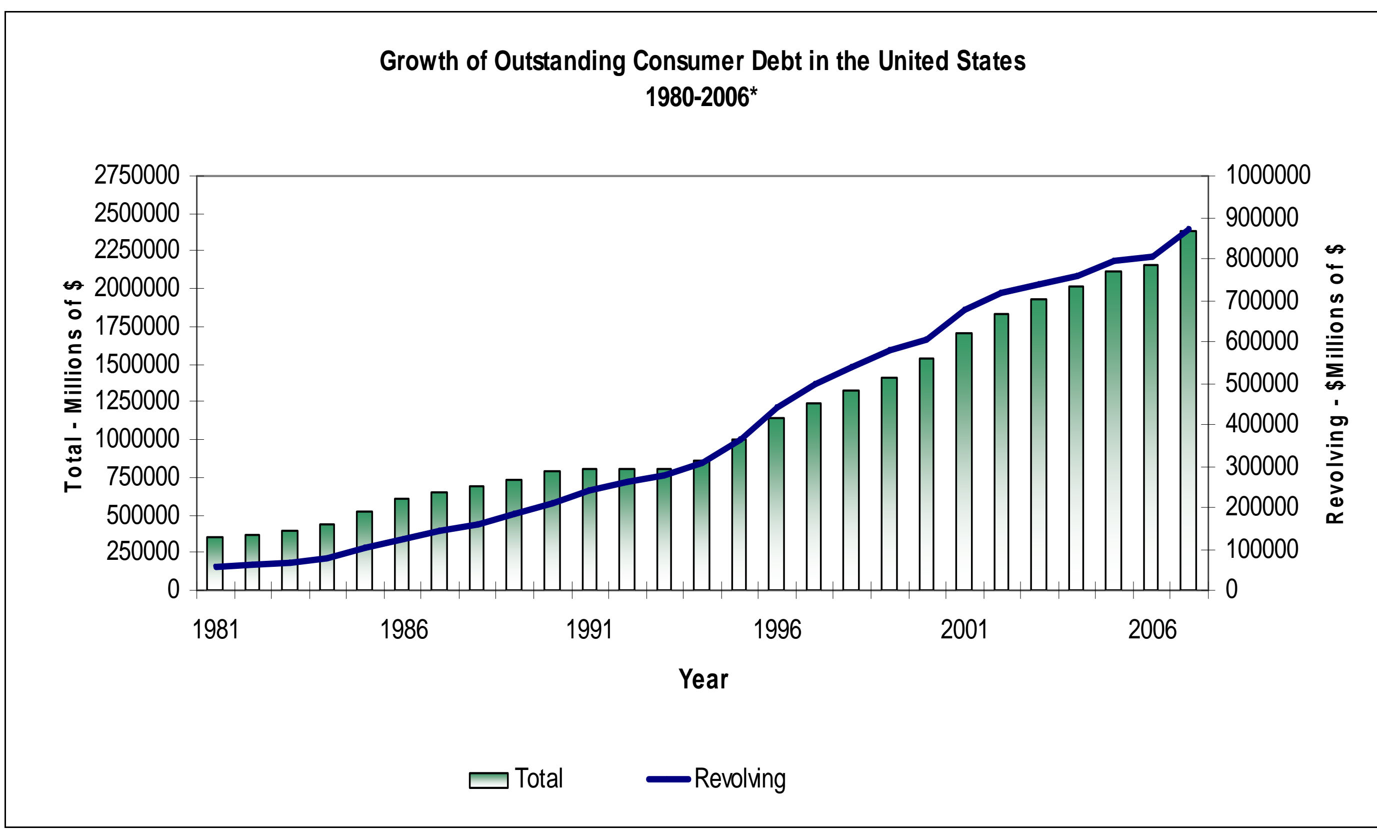
U.S. Personal Savings as a Percentage of Disposable Income



Appendix C

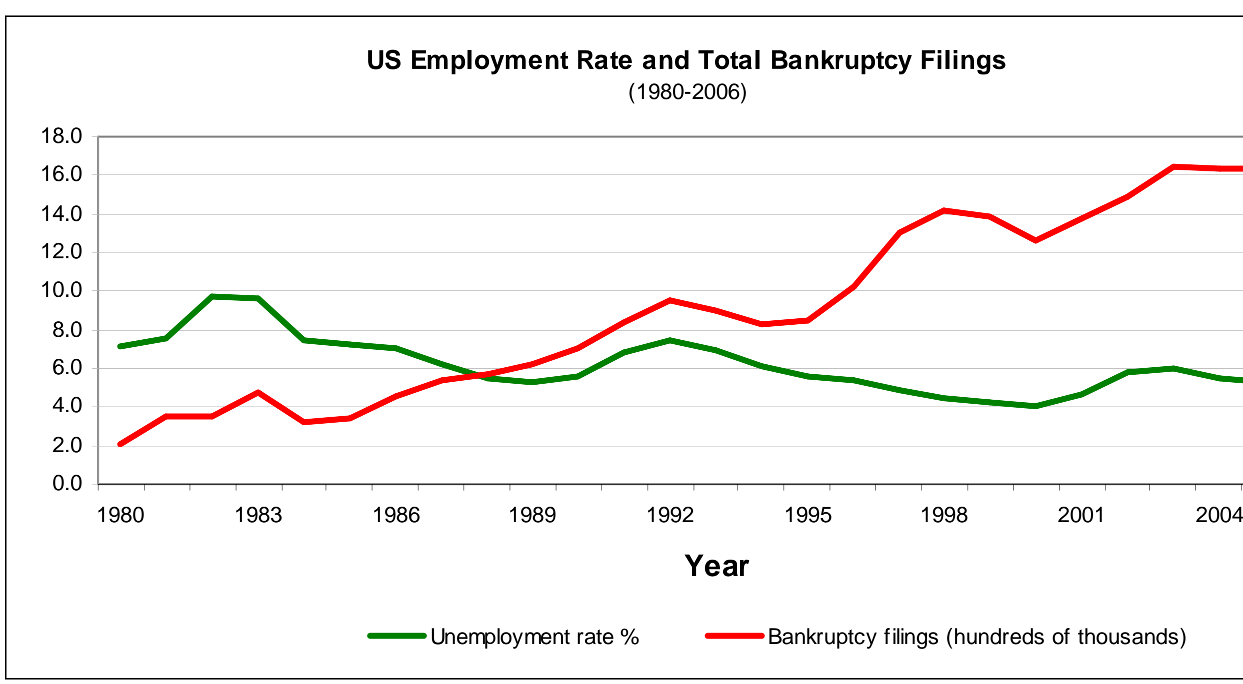


Appendix D



Source: Federal Reserve Statistical Release. G.19 - Consumer Credit Outstanding.
*2006 data as reported for November
Available from: http://www.federalreserve.gov/releases/g19/hist/cc_hist_sa.html

Appendix E



Appendix F

Account Summary	Previous Balance	(+) Purchases & Advances	(-) Payments & Credits	(+) FINANCE CHARGE	(=) New Balance
PURCHASES	$10,852.41	$0.00	$340.00	$34.97	$10,547.38
ADVANCES	$0.00	$0.00	$0.00	$0.00	$0.00
TOTAL	$10,852.41	$0.00	$340.00	$34.97	$10,547.38

Days This Billing Period: 30

Rate Summary	Balance Subject to Finance Charge	Periodic Rate	Nominal APR	ANNUAL PERCENTAGE RATE
PURCHASES				
Standard Purch	$0.00	0.03901%(D)	14.240%	14.240%
Offer 4	$10,666.10	0.01093%(D)	3.990%	3.990%
ADVANCES				
Standard Adv	$0.00	0.06367%(D)	23.240%	23.240%

SEND PAYMENTS TO: CITI CARDS PO BOX 183064 COLUMBUS, OH 43218-3064

PLEASE FOLLOW PAYMENT INSTRUCTIONS ON REVERSE SIDE. PAYMENT MUST BE RECEIVED BY 5:00 PM LOCAL TIME ON 10/16/2006

www.citicards.com

citi

15424180353377408999999158005815

Your Account Number

Please Enter Amount Of Payment Enclosed

Payment Due Date	Your Total Balance	Minimum Amount Due
OCT 16 2006	$10547.38	$156.00

$

195205 MC 00 A 1 8RD6C0325

ROBERT D MANNING

NY 14534-3101

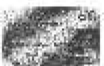
CITI CARDS
PO BOX 183064
COLUMBUS, OH 43218-3064

New Home Phone

New Business Phone

NNNN NNNN NNNN NNYN
2140135400952100002

Citi® Diamond Preferred℠ Card



How to Reach Us
1-800-633-7367
Customer Service
BOX 6500
SIOUX FALLS, SD 57117
Access your account online: citi

Rate Summary — Days This Billing Period: 29

	Balance Subject to Finance Charge	Periodic Rate	Nominal APR	ANNUAL PERCENTAGE RATE
PURCHASES				
Standard Purch	0.00	0.08833%(D)	32.240%	32.240%
Offer 4	10,402.15	0.08833%(D)	32.240%	32.240%
ADVANCES				
Standard Adv	0.00	0.08833%(D)	32.240%	32.240%

News from Citi

The Annual Percentage Rate on your account has been increased due to one of the following reasons stated in your Card Agreement with us: you failed to make a payment to us when due, you exceeded your credit line or you made a payment to us that was not honored by your bank.

Access your account online: citicards.com
Account Member
ROBERT D MANNING

Account Number

How to Reach Us
1-800-633-7367

Customer Service
BOX 6500
SIOUX FALLS, SD
57117

At a Glance

Previous Balance	Amount Over Credit Line	Past Due	Finance Charges	Total New Balance
$10,274.08	$0.00	$154.00	$266.46	$10,579.54

Standard Purchases

Sale	Post	Description	Amount
	12/20	LATE FEE - NOV PAYMENT PAST DUE	39.00

Balance Transfer - Charges To Offer 4

Sale	Post	Description	Amount
	12/20	PURCHASES*FINANCE CHARGE*PERIODIC RATE	266.46

Categorized Purchase Activity

Air Travel	Auto Rental	Entertainment	Health Care	Lodging	Merchandise
0.00	0.00	0.00	0.00	0.00	0.00

me this
up for
ice —
use
son and
line
e time