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S. Hrg. 110–289

CREDIT CARD PRACTICES: UNFAIR INTEREST RATE INCREASES

HEARING

BEFORE THE

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

OF THE

COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

DECEMBER 4, 2007

Available via http://www.access.gpo.gov/congress/senate

Printed for the use of the
Committee on Homeland Security and Governmental Affairs

U.S. GOVERNMENT PRINTING OFFICE

40–504 PDF WASHINGTON : 2008

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
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[*] Retained in the files of the Subcommittee.

CREDIT CARD PRACTICES: UNFAIR INTEREST RATE INCREASES

TUESDAY, DECEMBER 4, 2007

U.S. SENATE,
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 9:33 a.m., in Room SD–106, Dirksen Senate Office Building, Hon. Carl Levin, Chairman of the Subcommittee, presiding.

Present: Senators Levin, Carper, Pryor, McCaskill, Tester, Coleman, Coburn, and Warner.

Staff Present: Elise J. Bean, Staff Director and Chief Counsel; Mary D. Robertson, Chief Clerk; Zachary I. Schram, Counsel; Audrey Ellerbee, Congressional Fellow to Senator Levin; Kate Bittinger Eikel, Detailee, GAO; Alan Kahn, Law Clerk; Jonathan Port, Intern; Mark L. Greenblatt, Staff Director and Chief Counsel to the Minority; Timothy R. Terry, Counsel to the Minority; Kristin Sharp (Senator Pryor); Jason Rosenberg, (Senator Tester) Derek Dorn and Gregory Zagorski (Senator Lieberman); Chuck Jones (Senator Carper); Jerryl Christmas (Senator McCaskill); and Scott Eckel (Senator Sununu).

OPENING STATEMENT OF SENATOR LEVIN

Senator LEVIN. Good morning, everybody. This hearing is the second in a series of Subcommittee hearings examining unfair credit card practices. Today's focus is on credit card issuers who hike the interest rates of cardholders who play by the rules, meaning folks who pay on time, pay at least the minimum amount due, and wake up one day to find their interest rate has gone through the roof—again, not because they paid late or exceeded their credit limit, but because their credit card issuer decided they should be "repriced."

To add insult to injury, credit card issuers apply those higher rates retroactively to consumers' existing credit card debts which were incurred when lower interest rates were in effect. Let me give you a few examples taken from the Subcommittee investigation into the interest rate practices at the five major credit card issuers who handle 80 percent of U.S. credit cards. These examples are

also summarized in a set of eight case histories in Exhibit 1,[1] which will be made part of the hearing record.

Janet Hard of Freeland, Michigan, is a registered nurse, married with two children, whose husband is a steamfitter. She has had a Discover credit card for years. In 2006, out of the blue, Discover increased the interest rate on her card from 18 percent to 24 percent. Discover took that action because Ms. Hard's FICO score had dropped.

FICO scores, developed by the Fair Isaac Company, are numbers between 300 and 850 that are generated by a complex mathematical model designed to predict the likelihood that a person will default on their credit obligations within the next 60 days. FICO scores are compiled by credit bureaus who supply them upon request to credit card issuers seeking the scores of their cardholders.

Discover's policy is to put more weight on a computer-generated FICO score than on the fact that for years Ms. Hard had always paid her Discover bills on time, never exceeded her credit limit, and had always paid at least the minimum amount due.

After increasing her rate, Discover even applied the higher interest rate to her existing credit card debt, which, in my book, fits the definition of a retroactive rate increase. The 24-percent rate boosted her finance charges and the minimum payment she was required to make each month. It took Ms. Hard some months to realize that, despite making larger payments, her debt was hardly decreasing. When she saw her interest rate had been hiked to 24 percent and complained, Discover lowered it to 21 percent—still above where she started.

The higher interest rates have made it more difficult for Ms. Hard to pay off her debt. Under her old rate of 18 percent, when she made a $200 payment, about $148 went to pay the finance charges and $52 went to pay down her debt. With the 24-percent interest rate, out of that same $200 payment, about $176 went to finance charges and only about $24—less than half the amount previously—went to pay down the principal debt.

Chart 2(a), which is up there to our right, shows the result.[2] Over the last 12 months, Ms. Hard has kept her credit card purchases to less than $100 and has made steady monthly payments of $200 to reduce her debt. At the end of the year, her payments totaled $2,400—12 months times $200—but due to those high interest rates of 21 to 24 percent, almost all of her money went for finance charges. In fact, out of her $2,400, about $1,900 went to finance charges, and she was able to pay down her principal debt by only about $350.

Millard Glasshof of Milwaukee, Wisconsin, is a senior citizen living on a fixed income. For years he faithfully made a $119 monthly payment to Chase to pay off a credit card debt that is now about $4,800. In December 2006, a year ago, out of the blue, Chase decided to hike his interest rate from 15 percent, where it had been for years, to 17 percent, and then in February to 27 percent.

Why? Chase had decided to conduct an automated review of all of its closed credit card accounts where balances were being paid

[1] See Exhibit 1 which appears in the Appendix on page 120.
[2] See Exhibit 2.a. which appears in the Appendix on page 138.

off. Because that automated review found that Mr. Glasshof's FICO credit score had dropped, it hiked his interest rate.

Now, think about that. His account was closed. He made no new purchases. All he did for years was send in his payments like clockwork. But his interest rate was automatically hiked from 15 percent to 27 percent. And not only that, to rub salt in the wound, the new 27-percent rate was applied retroactively to his existing credit card debt, and his finance charges skyrocketed.

Under the 27-percent interest rate, out of his $119 monthly payments to Chase, about $114 went to pay the finance charges, and only about $5 a month went to pay down his principal debt. And even those $5 reductions were wiped out by sky-high fees. For example, Mr. Glasshof was often charged a $39 per month over-the-limit fee—until at our last hearing in March Chase ended its policy of charging repeated over-the-limit fees for going over the credit card limit once. In addition, in August 2007, Mr. Glasshof got a confusing letter from Chase indicating that his minimum payment would change. He called Chase, was advised he could pay $111 instead of his usual $119. He paid it, and then he got hit with a $39 fee for not paying enough.

The end result, as shown in Chart 2(b) to my right,[1] was that over the last 12 months Mr. Glasshof made payments totaling about $1,300 but was charged about $1,100 in interest and $200 in fees. That meant that none of his $1,300 in payments reduced his debt at all.

Then there is Bonnie Rushing of Naples, Florida. She has two Bank of America cards, one of which is affiliated with the American Automobile Association, or AAA. For years, she paid both credit card bills on time. For years, both cards carried an interest rate of about 8 percent. But in April 2007—again, out of the blue—Bank of America increased the interest rate on her AAA card, not by a handful of points but by tripling it, from 8 percent to 23 percent. Bank of America tripled the rate because Ms. Rushing's FICO score had dropped, and the bank used that FICO score to raise her rate, ignoring the fact that for years she had paid her credit card bills to Bank of America on time.

Ms. Rushing, by the way, like Ms. Hard and Mr. Glasshof, does not know why her FICO score dropped. She speculates that it may have been because in January and March 2007, she opened Macy's and J. Jill credit cards to obtain discounts on purchases—15 percent off some cosmetics, 20 percent off some clothes. She did not realize that simply opening those accounts and receiving those cards could negatively impact her FICO score, her credit rating, and hike her interest rate.

When Ms. Rushing first saw the higher rate on her April billing statement, she called Bank of America, explained that she never received notice of a rate increase, and wanted to opt out by closing her account and paying off her debt at the old rate. Bank of America personnel responded she had already missed the opt-out deadline and pressed her to accept the higher interest rate. Ms. Rushing resisted. She closed her account. She wrote the Florida Attorney General. She wrote to this Subcommittee. She called AAA.

[1] See Exhibit 2.b. which appears in the Appendix on page 139.

Bank of America finally agreed to restore the 8-percent rate on her closed account and refunded the $600 in extra finance charges it had collected in just 2 months.

Linda Fox of Circleville, Ohio, is a working grandmother. She has had a Capital One credit card for more than 10 years. In 2007, suddenly Capital One increased her interest rate from 8 percent to 13 percent. Capital One raised her rate not because her FICO score had dropped—Capital One does not use FICO scores to raise rates—but because Capital One had decided to pass on so-called additional borrowing costs to its cardholders.

Capital One's automated system selected accounts whose interest rates had not been increased in 3 years and had what the system deemed a below-market interest rate. Ms. Fox's account was one of many selected, and the higher rate was applied retroactively to her existing credit card debt. She tried, without success, to opt out, to get her old rate back. Six months later, in November, after a Subcommittee inquiry, Capital One allowed Ms. Fox to close her account and pay off her debt at the old 8-percent rate.

We have a lot of additional case histories, but I will stop with just one more.

In 2007, Gayle Corbett of Seattle, Washington, was hit with interest rate hikes on three separate credit cards in three separate months. Bank of America increased her rate from 15 percent to 24 percent; Citi more than doubled her rate from 11 percent to 23 percent; Capital One hiked her rate from 15 percent to 19 percent. Bank of America and Citi acted because her FICO score had dropped, while Capital One had selected her account as part of its practice to unilaterally pass on borrowing costs to its cardholders.

After many calls, Ms. Corbett was able to convince each of the companies to partially or fully retract its rate increase. As a result, the interest rates on her three cards have settled for the moment at 10 percent, 19 percent, and 15 percent. She told the Subcommittee that contesting these multiple increases, none of which were her fault, and all of which threatened her ability to repay her debts, had left her exhausted and worried about what happens next.

Well, those case histories cause me a lot of worry, too. December is a big shopping month. Stores, advertisers, and sometimes even the President are urging shoppers to spend more. But if you shop with a credit card, as most Americans do, dangers lurk that few consumers realize could damage their financial future.

Suppose, for example, you spend up to but not over the credit limit on your credit card. Most Americans do not realize that if they get too close to their credit limit, their FICO score could drop and trigger an interest rate increase on their credit cards, even for credit cards that they have paid on time for years, even for closed cards whose debts they are paying off. And the same lower FICO score could trigger interest rate hikes on more than one credit card, increasing the debt on each one. At least 50 percent of U.S. credit cardholders carry debt from month to month, and the average American family has five credit cards. Interest hikes on multiple cards at once could spell financial disaster for working families.

One of the issues the Subcommittee has been investigating is who determines an individual's FICO score. Who decides when a

lower FICO score will trigger a higher credit card interest rate? And who actually sets those higher interest rates? What we have found is that most interest rate decisions are not made by individual employees of companies but by computer systems programmed to react to credit scores.

In most of the case histories that we examined, when a credit card issuer was asked by a Subcommittee to explain why a particular cardholder's interest rate was increased, the issuer pointed to the person's lower FICO score. When we asked why the FICO score was lower, usually the only information the credit card issuer provided was a list of up to four "reason codes" supplied by the credit bureau at the time the lower score was transmitted. These reason codes provided generic statements on why a score was reduced, using such phrases as "balance grew too fast compared to credit limit" or "total available credit on bank cards is to low," without identifying the specific facts that supported or explained these statements.

By law, credit card issuers who rely upon a credit score to increase an interest rate must inform the cardholder of the identity of the credit bureau which supplied the score, how to contact that bureau, and the cardholder's right to review their credit report and correct any wrong data. Issuers often include that information in the same notice that informed a cardholder of an upcoming interest rate increase. However, the Subcommittee's investigation has found that few cardholders understand that their interest rate hike was caused by a lower credit score. And even for those who do make that connection, the investigation has found that it is difficult to look at a person's credit report and identify what factors caused their score to drop.

None of the cardholders contacted by the Subcommittee had known that their interest rates had been triggered by a lower FICO score. Janet Hard, for example, said she asked Discover why her interest rate had been increased, but was never informed that it was because her FICO score had dropped, and so she never requested or reviewed her credit report.

In response to the Subcommittee's request, Discover provided the three reason codes transmitted by a credit bureau to explain Ms. Hard's lower score, which indicated that the "proportion of balance to credit limit was too high on her credit cards," she had too many "established accounts," and she had "accounts with delinquencies." But Discover did not know what balances were "too high," how many accounts were "too many," or what accounts had "delinquencies." Ms. Hard felt the stated reasons were inaccurate since she had always been careful to pay all of her bills and is current on all of her accounts.

When we examined Ms. Hard's credit report, we were also at a loss to explain these references since her accounts are all paid up to date. We did notice that just before her 2006 rate increase, the credit report showed she was 30 days late paying a J.C. Penney credit card bill, but it is unclear if that lowered her score.

We had the same difficulty in the case of Bonnie Rushing. Bank of America was unable to confirm whether her credit score dropped because, in early 2007, she opened Macy's and J. Jill credit cards to obtain discounts on purchases.

The bottom line is that the credit-scoring process is at times akin to a black box. No one knows exactly how it works or what lowers the score, yet it has become the primary driver of interest rate increases for tens of millions of Americans. To me, if a person meets their credit card obligations to a credit card issuer and pays their bills on time, it is simply unfair for that credit card issuer to raise their interest rates based on a credit score that is confusing, and does not relate to the relationship or the payment record of that credit cardholder to a particular credit card issuer.

Equally offensive is the practice of credit card issuers applying the higher interest rate not just to future debt but retroactively to a cardholder's existing debt. Take the case of Ms. Hard again, a woman who faithfully pays her bills on time. For the last year, she kept her purchases on her Discover Card to less than $100, and she paid $200 every month to reduce her debt. When Discover hiked her interest rate from 18 percent to 24 percent, it applied the higher rate to her existing debt. After she complained, Discover lowered her rate to 21 percent, but that was still above where she started. Over the past 12 months, she has paid Discover a total of $2,400, more than a quarter of her $8,300 debt. But 1,900 of those dollars did not go to pay down her debt. They were eaten up by sky-high interest rates. At the end of 12 months, despite paying $2,300, she reduced her debt by only $350. If that is not unfair, I do not know what is.

One last point, which has to do with the appearance of arbitrary credit card interest rates. Credit card issuers have attempted to set up an automated system that assigns interest rates using "objective criteria," allegedly based upon cardholders' credit risks represented by their FICO scores. But look at the case histories that we have investigated.

Over the course of the last year, even though his credit circumstance did not change, Mr. Glasshof's credit card with Chase was assigned interest rates of 15 percent, 17 percent, 27 percent, and 6 percent. That 6-percent rate, by the way, came after the Subcommittee inquired about his account.

Another case history which we have not mentioned so far involves Marjorie Hancock of Massachusetts. She has four Bank of America cards, carries similar amounts of debt on each, and presumably presents each with the same credit risk. Yet all four cards have different interest rates: 8 percent, 14 percent, 19 percent, and 27 percent.

The bottom line for me is this: When a credit card issuer promises to provide a cardholder with a specific interest rate if they meet their credit card obligations and the cardholder holds up their end of the bargain, the credit card issuer should have to do the same. And that is why I have introduced, with Senator McCaskill and others, S. 1395 aimed at putting an end to these and other unfair credit card practices and ensuring that cardholders who play by the rules are protected from unfair interest rate increases, including rate increases that are retroactively applied to existing credit card debt.

[The opening prepared statement of Senator Levin follows:]

OPENING PREPARED STATEMENT OF SENATOR LEVIN

This hearing is the second in a series of Subcommittee hearings examining unfair credit card practices. Today's focus is on credit card issuers who hike the interest rates of cardholders who play by the rules—meaning those folks who pay on time, pay at least the minimum amount due, and wake up one day to find their interest rate has gone through the roof—again, not because they paid late or exceeded the credit limit, but because their credit card issuer decided they should be "repriced." To add insult to injury, credit card issuers apply those higher rates retroactively to consumers' existing credit card debts, which were incurred when lower interest rates were in effect.

Let me give you a few examples taken from the Subcommittee investigation into the interest rate practices at the five major credit card issuers who handle 80 percent of U.S. credit cards. These examples are also summarized in a set of eight case histories in Exhibit 1, that is a part of the hearing record.

Janet Hard of Freeland, Michigan is a registered nurse, married with two children, whose husband is a steamfitter. She has had a Discover credit card for years. In 2006, out of the blue, Discover increased the interest rate on her card from 18 percent to 24 percent.

Discover took that action, because Ms. Hard's FICO score had dropped. FICO scores, developed by the Fair Issac Company, are numbers between 300 and 850 that are generated by a complex mathematical model designed to predict the likelihood that a person will default on their credit obligations within the next 90 days. FICO scores are compiled by credit bureaus who supply them upon request to credit card issuers seeking the scores of their cardholders. Discover's policy is to put more weight on a computer-generated FICO score than on the fact that, for years, Ms. Hard had always paid her Discover bills on time, never exceeded her credit limit, and always paid at least the minimum amount due.

After increasing her rate, Discover even applied the higher interest rate to her existing credit card debt, which in my book fits the definition of a retroactive rate increase. The 24 percent rate boosted her finance charges and the minimum payment she was required to make each month. It took Ms. Hard some months to realize that, despite making larger payments, her debt was hardly decreasing. When she saw her interest rate had been hiked to 24 percent and complained, Discover lowered it to 21 percent, still above where she started.

The higher interest rates have made it more difficult for Ms. Hard to pay off her debt. Under her old rate of 18 percent, when she made a $200 payment, about $148 went to pay for the finance charges and $52 went to pay down her debt. With the 24 percent interest rate, out of that same $200 payment, about $176 went to finance charges and only about $24—less than half the amount previously—went to pay down the principal debt.

This chart, Exhibit 2(a) shows the result. Over the last twelve months, Ms. Hard has kept her credit card purchases to less than $100 and has made steady monthly payments of $200 to reduce her debt. At the end of a year, her payments totaled $2,400, but due to those high interest rates of 21 to 24 percent, almost all of her money went to pay for finance charges. In fact, out of her $2,400, about $1,900 went to finance charges and she was able to pay down her principal debt by only about $350.

Millard Glasshof of Milwaukee, Wisconsin, is a senior citizen living on a fixed income. For years he faithfully made a $119 monthly payment to Chase to pay off a credit card debt that is now about $4,800. In December 2006, a year ago, out of the blue, Chase decided to hike his interest rate, from 15 percent where it had been for years, to 17 percent and then in February to 27 percent.

Why? Chase had decided to conduct an automated review of all its closed credit card accounts where balances were being paid off. Because that automated review found that Mr. Glasshof's FICO credit score had dropped, it hiked his rate. Think about that. His account was closed. He made no new purchases. All he did for years was send in his payments like clockwork. But his interest rate was automatically hiked from 15 to 27 percent. Not only that, to rub salt in the wound, the new 27 percent rate was applied retroactively to his existing credit card debt, and his finance charges skyrocketed.

Under the 27 percent interest rate, out of his $119 monthly payments to Chase, about $114 went to pay for finance charges and only $5 a month went to pay down his principal debt. And even those $5 reductions were wiped out by sky-high fees. For example, Mr. Glasshof was often charged a $39 per month over-the-limit fee, until at our last hearing in March Chase ended its policy of charging repeated over-the-limit fees for going over the credit limit once. In addition, in August 2007, Mr. Glasshof got a confusing letter from Chase indicating that his minimum payment

would change. He called Chase, was advised he could pay $111 instead of his usual $119, paid it, and got hit with a $39 fee for not paying enough.

The end result, as shown in this chart, Exhibit 2(b), was that, over the last twelve months, Mr. Glasshof made payments totaling about $1,300, but was charged about $1,100 in interest and $200 in fees, which meant that none of his $1,300 in payments reduced his debt at all.

Then there's Bonnie Rushing of Naples, Florida. She has two Bank of America cards, one of which is affiliated with the American Automobile Association ("AAA"). For years, she paid both credit card bills on time. For years, both cards carried an interest rate of about 8 percent. But in April 2007, out of the blue, Bank of America increased the interest rate on her AAA card—not by a handful of points but by tripling it from 8 percent to 23 percent. Bank of America tripled the rate, because Ms. Rushing's FICO score had dropped, and the bank used that FICO score to raise her rate, ignoring the fact that, for years, she had paid her credit card bills to Bank of America on time.

Ms. Rushing, by the way, like Ms. Hard and Mr. Glasshof, doesn't know why her FICO score dropped. She speculates that it may have been because, in January and March 2007, she opened Macy's and J.Jill credit cards to obtain discounts on purchases—15 percent off some cosmetics and 20 percent off some clothes. She didn't realize then that simply opening those accounts and receiving those cards could negatively impact her FICO score and hike her interest rate.

When Ms. Rushing first saw the higher rate on her April billing statement, she called Bank of America, explained she'd never received notice of a rate increase, and wanted to opt out by closing her account and paying off her debt at the old rate. Bank of America personnel responded that she had already missed the opt out deadline and pressed her to accept a higher interest rate. Ms. Rushing resisted. She closed her account. She wrote to the Florida Attorney General; she wrote to this Subcommittee; and she called AAA. Bank of America finally agreed to restore the 8 percent rate on her closed account, and refunded the $600 in extra finance charges it had collected in just two months.

Linda Fox of Circleville, Ohio is a working grandmother. She has had a Capital One credit card for more than ten years. In April 2007, out of the blue, Capital One increased her interest rate from 8 percent to 13 percent. Capital One raised her rate, not because her FICO score had dropped (Capital One doesn't use FICO scores to raise rates), but because Capital One had decided to pass on so-called additional borrowing costs to its cardholders. Capital One's automated system selected accounts whose interest rates had not been increased in three years and had what the system deemed a "below market" interest rate. Ms. Fox's account was one of many selected, and the higher rate was applied retroactively to her existing credit card debt. She tried without success to opt out and get her old rate back. Six months later, in November, after a Subcommittee inquiry, Capital One allowed Ms. Fox to close her account and pay off her debt at the old 8 percent rate.

We have additional case histories, but I'll stop with just one more. In 2007, Gayle Corbett of Seattle, Washington was hit with interest rates hikes on three separate credit cards in three separate months. Bank of America increased her rate from 15 percent to 24 percent; Citi more than doubled her rate from 11 percent to 23 percent; and Capital One hiked her rate from 15 percent to 19 percent. Bank of America and Citi acted because her FICO score had dropped, while Capital One had selected her account as part of its practice to unilaterally pass on borrowing costs to its cardholders. After many calls, Ms. Corbett was able to convince each of the companies to partially or fully retract its rate increase. As a result, the interest rates on her three cards have settled for the moment at 10 percent, 19 percent, and 15 percent. She told the Subcommittee that contesting these multiple increases, none of which were her fault and all of which threatened her ability to repay her debts, had left her exhausted and worried about what happens next.

These case histories cause me a lot of worry too. In the United States, December is a big shopping month. Stores, advertisers, and sometimes even the President, are urging shoppers to spend more. But if you shop with a credit card, as most Americans do, dangers lurk that few consumers realize could damage their financial future.

Suppose, for example, you spend up to—but not over—the credit limit on your credit card. Most Americans don't realize that if they get too close to their credit limit, their FICO score could drop and trigger an interest rate increase on their credit cards—even for credit cards that they've paid on time for years—even for closed cards whose debts they're paying off. And the same lower FICO score could trigger interest rate hikes on more than one credit card, increasing the debt on each one. At least 50 percent of U.S. credit cards carry debt from month to month, and

the average American family today has five credit cards. Interest hikes on multiple cards at once could spell financial disaster for working families.

Among the issues the Subcommittee has been investigating are who determines an individual's FICO score, who decides when a lower FICO score will trigger a higher credit card interest rate, and who actually sets those higher interest rates. What we found is that most interest rate decisions are not made by individual employees, but by computer systems programmed to react to credit scores.

It works like this. Take a look at this chart, Exhibit 2(c). FICO scores are generated by three so-called credit bureaus, Equifax, Experian, and TransUnion. To produce the scores, each credit bureau collects credit data from a variety of sources, including payment data from companies administering mortgages, car loans, utility bills, and credit card accounts, and information taken from bankruptcy and tax proceedings, debt collectors, and others. This credit data is fed into the credit bureaus' computer systems on a continuous basis.

The credit bureau computers take in, store, and organize the information so that a "credit report" can be called up for any one of hundreds of millions of individuals. Each credit report identifies the individual by name and address; lists what types of credit that person has, including any mortgage, car loan, or credit card; and describes whether the person is current or behind on the payments. The report also indicates whether that person has been the subject of debt collection efforts or has declared bankruptcy.

In addition to compiling the credit reports, the credit bureaus apply a complex mathematical model, developed by Fair Issac Company, to analyze the data in each report in an attempt to predict how likely the person is to default on their credit obligations in the next 90 days. The model focuses primarily on such factors as the extent to which a person is past due in paying their bills, the level of debt incurred, and the extent to which the incurred debt is close to the person's credit limits. Recent debt collection actions and bankruptcies are considered key factors that predict a greater likelihood of default. After analyzing the data in each credit report, the model assigns each person a FICO score, that number between 300 and 850 that is supposed to predict the likelihood of a default in the next 90 days.

Fair Issac has designed the FICO scoring system so that the lower the number, the more likely the person is to default in the next 90 days. A person with a 720 FICO score, for example, is seen as having odds of roughly 1 in 22 that they will default in the next 90 days; a person with a 680 score has 1 in 9 odds of defaulting; and a person with a 620 score is seen as having roughly 1 in 4 odds of defaulting. So the lower the score, the greater likelihood a person will default.

Major credit card issuers typically check the FICO scores of each of their cardholders every 30-90 days. Since each issuer has millions of cardholders, millions of FICO scores are fed into the issuer's computer systems on an automated basis. If a cardholder's FICO score drops, the issuer's own automated, risk analysis system automatically flags the account for additional review. The issuer's system then uses the person's FICO score and actual payment history at the issuer to generate an internal credit score evaluating the cardholder's likelihood of defaulting in the near future. If that internal credit score falls within designated criteria—even if that cardholder has a perfect record of making on-time payments to the issuer—the credit card issuer's computers use other criteria to select a higher interest rate for that cardholder. The system then sends a notice to the cardholder that the increased rate will be applied by a specified date, unless the cardholder follows certain procedures to opt out of the increase by closing the account.

The automated process I've described, capable of making credit decisions on millions of accounts, has been in operation for years. Today, in most cases, no human being is involved at any point in deciding who will get an interest rate increase, selecting the interest rates to be imposed, and notifying the affected cardholders. While human beings do program the computers and sometimes are brought in to decide a small portion of individual cases, the vast majority of credit card interest rate increases today are being decided and imposed on an automated basis. And those automated rate increases can and do hike the interest rates of people with excellent histories of on-time payments.

To make interest rate decisions, the issuers' automated systems are driven by numbers, primarily FICO scores. What the Subcommittee has learned is that the mathematical models generating the FICO scores are so complex that even experts have trouble predicting what actions will increase or lower an individual's score. Take, for example, the situation where a person opens a new credit card account in order to obtain a discount on a purchase. Opening a new credit card could increase a person's FICO credit score if they have only a few credit cards and don't use up a lot of the available credit on the new card. But the same action could lower another person's score if they already have a handful of credit cards and buy a big

ticket item that uses up or comes close to the credit limit on the new card. As the FICO experts explain, every factor depends upon every other factor to determine a person's score, so it is difficult to predict how specific actions affect an individual's FICO score.

The Subcommittee also learned that, although credit bureaus typically transmit not only a person's FICO score, but also the underlying credit report containing the information justifying that score, credit card issuers typically do not review or keep that credit report. The credit bureau does not retain the credit report either, because its automated systems are continually updating all of its credit information with the latest data streaming in. That means, unless a cardholder requests a credit report soon after a FICO score is transmitted to an issuer, the specific information used to generate the specific score may be lost.

In most of the case histories we examined, when a credit card issuer was asked by the Subcommittee to explain why a particular cardholder's interest rate was increased, the issuer pointed to the person's lower FICO score. When we asked why the FICO score was lower, usually the only information the credit card issuer provided was a list of up to four "reason codes" supplied by the credit bureau at the time the lower score was transmitted. These reason codes provide generic statements on why a score is reduced, using such phrases as "balance grew too fast compared to credit limit" or "total available credit on bankcards is too low," without identifying the specific facts that support or explain these statements.

By law, credit card issuers who rely upon a credit score to increase an interest rate must inform the cardholder of the identity of the credit bureau who supplied the score, how to contact that bureau, and the cardholder's right to review their credit report and correct any wrong data. Issuers often include that information in the same notice that informs a cardholder of an upcoming interest rate increase. The Subcommittee's investigation has found, however, that few cardholders understand that their interest rate hike was caused by a lower credit score. And even for those who do make that connection, the investigation has found that it is difficult to look at the person's credit report and identify what factors caused their score to drop.

None of the cardholders contacted by the Subcommittee had known that their interest rates had been triggered by a lower FICO score. Janet Hard, for example, said she'd asked Discover why her interest rate had been increased but was never been informed that it was because her FICO score had dropped and so never requested or reviewed her credit report. In response to the Subcommittee's request, Discover provided the three reason codes transmitted by a credit bureau to explain Ms. Hard's lower score, which stated that the "proportion of balance to credit limit" was "too high" on her credit cards, she had too many "established accounts," and she had "accounts with delinquenc[ies]." But Discover didn't know what balances were "too high," how many accounts were too many, or what accounts had delinquencies. Ms. Hard felt the stated reasons were inaccurate, since she has always been careful to pay all her bills and is current on all of her accounts. When we examined Ms. Hard's credit report, we were also at a loss to explain these references, since her accounts are all paid up to date. We did notice that, just before her 2006 rate increase, the credit report showed she was 30 days late paying a J.C. Penny credit card bill, but it is unclear if that lowered her score. We had the same difficulty in the case of Bonnie Rushing; Bank of America was unable to confirm whether her credit score dropped because, in early 2007, she opened Macy's and J.Jill credit cards to obtain discounts on purchases. The bottom line is that the credit scoring process is at times akin to a black box; no one knows exactly how it works or what lowers a score, yet it has become the primary driver of interest rate increases for tens of millions of Americans.

To me, if a person meets their credit card obligations to a credit card issuer and pays their bills on time, it is simply unfair for that credit card issuer to raise their interest rates.

Equally offensive is the practice of credit card issuer's applying the higher interest rate, not just to future debt, but retroactively to a cardholder's existing debt. Take the case of Ms. Hard again, a woman who faithfully pays her bills on time. For the last year, she kept her purchases on her Discover card to less than $100 and paid $200 every month to reduce her debt. When Discover hiked her interest rate from 18 percent to 24 percent, it applied the higher rate to her existing debt. After she complained, Discover lowered her rate to 21 percent, but that was still above where she started. Over the past twelve months, she has paid Discover a total of $2,400—more than a quarter of her $8,300 debt. But $1,900 of those dollars did not go to pay down her debt; they were eaten up by the sky-high interest rates. At the end of twelve months, despite paying $2,300, she reduced her debt by only $350. If that isn't unfair, I don't know what is.

One last point, which has to do with the appearance of arbitrary credit card interest rates. Credit card issuers have attempted to set up automated systems that assign interest rates using objective criteria based upon cardholders' credit risks, represented by their FICO scores. But look at the case histories we've investigated. Over the course of the last year, even though his credit circumstances didn't change, Mr. Glasshof's credit card with Chase was assigned interest rates of 15 percent, 19 percent, 27 percent and 6 percent. That 6 percent rate, by the way, came after the Subcommittee inquired about his account. Another case history, which we haven't mentioned so far, involves Marjorie Hancock of Massachusetts. She has four Bank of America cards, carries similar amounts of debt on each, and presumably presents each with the same credit risk. Yet all four cards have different interest rates, 8 percent, 14 percent, 19 percent, and 27 percent.

The bottom line for me is this: When a credit card issuer promises to provide a cardholder with a specific interest rate if they meet their credit card obligations, and the cardholder holds up their end of the bargain, the credit card issuer should have to do the same. That's why I've introduced legislation with Senator McCaskill and others, S. 1395, aimed at putting an end to these and other unfair credit card practices, and ensuring that cardholders who play by the rules are protected from unfair interest rate increases, including rate increases that are retroactively applied to existing credit card debt.

Senator Coleman, I would like to thank you and your staff for your ongoing participation in the Subcommittee's investigation into unfair credit card practices. That participation has greatly assisted in the Subcommittee's understanding of the industry practices being discussed today.

Senator LEVIN. Senator Coleman, I want to thank you and your staff for your ongoing participation in the Subcommittee's investigation into unfair credit card practices. That participation has greatly assisted in the Subcommittee's understanding of the industry practices that are being discussed today. I am most appreciative for that support and participation, and I now recognize you. Senator Coleman.

OPENING STATEMENT OF SENATOR COLEMAN

Senator COLEMAN. Thank you, Mr. Chairman. I want to return the thanks by thanking you for your continued leadership in this very important area of credit card practices. I suspect that in this hall everybody sitting here has a credit card. When I travel to my town meetings around the State of Minnesota, it is very rare that someone is not touched by the work that you are doing, and so I thank you for your leadership.

It is clear that, when it comes to credit, the world has changed. Not long ago, credit was something you had to earn. You made a case to a bank or a mortgage company that you were indeed capable of making payments. Not today. It seems every time we go to the mailbox, we are fighting off people who want to lend us money, and this easy credit has gotten a lot of folks into trouble. Lately, it seems you cannot read a newspaper or turn on the television without encountering stories about the credit crisis in the housing market. And while mortgage lending differs from credit card lending, the sectors are related. In fact, the chief economist at Moody's economy.com recently drew a clear link between the current mortgage crisis on the one hand and the problem of credit card debt on the other, saying, "Homeowners are unable to borrow against their homes, so they are turning back to their credit cards."

My point is that while credit card debt may seem like a very personal problem, it clearly has implications for the entire Nation, and we should make no mistake: The credit crunch is very real.

We have spoken to folks from our home State of Minnesota about certain credit card practices, and they are frustrated. Minnesota families find themselves ensnared in this seemingly inescapable web of credit card debt. They particularly report being saddled with interest rates that skyrocket on them from what they say is seemingly out of the blue.

I want to pause here with that one expression, "out of the blue." Folks out there are actually feeling ambushed. They feel like they are not getting sufficient notice of interest rate increases, and credit card companies need to do a better job here. Some of the witnesses we will hear from today will report not receiving or at least not reading change-in-terms notices. But, frankly, the problem is that, even when they read these notices, they seem to be written by and for lawyers, with an eye more towards staving off litigation rather than educating and providing actual notice to consumers.

To be sure, over the past 20 years the credit card industry has created financial opportunities for countless Americans by extending credit to a far broader pool of borrowers than other lenders, including many high-risk borrowers who would not otherwise have obtained credit. This democratization of credit has been a boon for America—for consumers and the credit card industry alike. As we move forward, however, we must be mindful not to throw the baby out with the bath water. We must be mindful of the unintended consequences that sometimes result from Federal regulation of the marketplace, consequences like higher average interest rates for all cardholders, the return of high annual fees, and a reduction in the availability of credit to folks with less-than-stellar credit scores.

I want to be clear: I fully understand that the democratization of credit has also brought greater complexity and greater vulnerability, and the reality is that many Americans continue to believe that the credit card system is rigged against them. But in addressing that problem, let's make sure we do not inadvertently harm the very people we are trying to protect.

With that in mind, I challenged the industry at our hearing last March to clean up its own act so that the Federal Government would not have to. In the aftermath of that hearing, I worked closely with industry representatives and directed my staff to work with credit card companies to help hammer out common-sense solutions to these challenges. I am happy to report that some credit card companies have begun the cleanup. Several have recognized the inadequacies of the disclosure and have worked with the Federal Reserve to provide new, clearer formats to better provide truly effective notice.

Even more encouraging, certain issuers have taken truly bold steps to reform their policies and practices. This year alone, J.P. Morgan Chase has improved its disclosures, eliminated double cycle billing, changed its practices with respect to over-the-limit fees, and just last month promised never to increase a cardholder's rate based on credit bureau information. Capital One has essentially the same policy. Similarly, Citi has agreed not to reprice customers who are in good standing more than once every 2 years. Oversight has its impact, Mr. Chairman.

These are all important steps. They constitute serious self-reform, and I applaud these companies for their leadership and oth-

ers like them. Credit card companies like Chase, Capital One, and Citi are starting to realize there is a benefit to be had, a competitive advantage to offering fair, consumer-friendly policies. Recently initiated plans like Chase's "Clear and Simple" or Citi's "A Deal Is a Deal" offer consumers a new level of transparency and predictability in managing their credit card obligations.

But more needs to be done. More credit card companies need to follow these companies' leads in combating the public's impression that issuers design hair-trigger default rules, out-of-the-blue interest rate hikes, and stingy cure policies that can entangle unsuspecting consumers. A cardholder should never be startled by a rate hike. In short, more credit card companies need to make their policies transparent and predictable, and you do this by focusing on one thing: Notice—clear, user-friendly disclosures, and commonsense, straightforward alerts to changes in a card's terms.

I look forward to working with our witnesses and with Chairman Levin to create a more consumer-friendly lending environment in the future. Thank you, Mr. Chairman.

Senator LEVIN. Thank you, Senator Coleman. Senator McCaskill.

OPENING STATEMENT OF SENATOR McCASKILL

Senator MCCASKILL. Mr. Chairman, I want to thank you for calling this hearing. I remain very concerned about the credit card industry and the reality that most Americans even with legal training do not dissect the very long small print that comes with every credit card and every credit card solicitation.

In the hearing before on this subject matter, I had talked about some of the things that I had been through personally as it related to my mother's credit cards. I have an installment on that saga. I finally, after some difficulty—I do not know how many of you have ever tried to pay off a credit card, but it is not easy. It is not easy to pay it off because they really do not want you to close the card, and so you keep saying, "I want this account closed," and they do not want to close it. And so you may not know this, but you cannot just close your account by writing on the bill statement. You have to send them a separate letter in writing. You cannot call them and say you do not want the card anymore. You have to send them a separate letter.

The last installment of the story is last week my mother heard from one of the credit card companies that I managed to finally get closed and thought it was over—and I will talk about some of the experiences with interest in the questioning of the bank executives later in the hearing. But she brought me an envelope last week she had gotten from one of these companies, and it was one of these cards that she had closed. It was an envelope of checks that she could sign for the Christmas holidays to begin using that card again. And this is, of course, after the company has been told in writing that she does not want a card, they should not solicit her, and so forth and so on.

So it is harder than it looks. I want to say to all the witnesses, do not be ashamed. You are there with the rest of America. I think most Americans do not understand that they are in a hole in terms of minimum payments, and I think, frankly, Mr. Chairman, that we are not preparing for what can be the next subprime disaster.

The next subprime disaster is the debt that is out there within the credit card obligations in America. I believe that all of that unsecured debt that is there that has been aggressively sought by these companies, I think that is another economic disaster that is waiting to happen very similar to the subprime mortgage disaster.

So I think this hearing is timely. I think it is time for Congress to act. If these credit card companies cannot understand that America needs to know what they are getting into in clear language—and it should not be hard for a consumer to find out why they are paying what they are paying, when they are paying what they are paying, and how long it is going to take for them to get out of the hole if they are paying what they are being asked to pay.

This is not that complicated, and it could be done by these companies without Congress doing a thing, if they wanted to do it. And I think if they will not do it, I am comfortable with the knowledge that eventually—I realize nothing happens quickly around here without a lot of pulling around. But I am confident that we will eventually force it upon the credit card companies if they do not become more consumer friendly. Thank you, Mr. Chairman.

Senator LEVIN. Thank you, Senator. Senator Coburn, do you have an opening statement?

Senator COBURN. No, I do not.

Senator LEVIN. Thank you.

I would now like to welcome our first panel of witnesses: Janet Hard, a consumer from Freeland, Michigan; Bonnie Rushing, a consumer from Naples, Florida; and Millard Glasshof, a consumer from Milwaukee, Wisconsin. I want to thank each of you for traveling here today. We look forward to your testimony. I would like to also welcome the family members who are here today, those who have accompanied you.

Pursuant to Rule VI, all witnesses who testify before this Subcommittee are required to be sworn, and at this time I would ask each of you to stand and to raise your right hand. Do you swear that the testimony you are about to give before this Subcommittee will be the truth, the whole truth, and nothing but the truth, so help you, God?

Ms. HARD. I do.

Ms. RUSHING. I do.

Mr. GLASSHOF. I do.

Senator LEVIN. We will use a timing system today. There will be a 5-minute limit on your testimony. If you could possibly achieve that, we would appreciate it. About a minute before the red light showing the end of 5 minutes comes on, you will see that the light will change from green to yellow, which gives you an opportunity to conclude your remarks. Your written testimony will be printed in the record in its entirety.

Ms. Hard, we will have you go first, followed by Ms. Rushing. Then we will finish up with Mr. Glasshof. And then after we have heard all of your testimony, we will turn to questions. Ms. Hard.

TESTIMONY OF JANET HARD,[1] CONSUMER, FREELAND, MICHIGAN

Ms. HARD. Mr. Chairman, Members of the Subcommittee, I would like to thank you for having me here today. I will begin by introducing myself.

My name is Janet Hard. I am from Freeland, Michigan, a small town in the Saginaw Bay area where my husband Bill and I have always lived. We have been married for 17 years and have two teenage sons. Bill is a steamfitter/welder and I am a registered nurse, but much of the time since having children we have chosen for me to be a stay-at-home mom. This decision meant significantly less income for our family, but we believe the benefits far outweighed the cost. When my boys were babies, I was the one who took care of them, I was there for all their firsts—first smiles, first words, first steps. The list goes on and on. They learned to read from me because I had time to read to them. When their school needed a volunteer for a class party or a chaperon for a field trip, I was always available. I would not give back the time I got to spend with them for all the money in the world, which brings me to the reason I am here.

During this time we used credit cards to make ends meet when we needed to. Maybe this was not the best decision, maybe we could have been more frugal with our money, but we were paying our bills on time and keeping our heads above water. We figured the time would come when our children were older that we could increase our income and pay off our accumulated debt. This no longer seems possible considering what the Discover Card Company has done to us.

This past February, I noticed that something was not right with our account. We were making payments more than the minimum amount required and using the card for only an $8-a-month Internet fee, but the balance was barely moving. So I did some investigating and found the reason. Our interest rate was at a whopping 24.24 percent. Our payment history with them, as well as other credit card companies, is very clean. We have never accrued a balance over our limit and always made our payments on time. So I thought it must be an error and called Discover immediately for an answer.

The woman that I spoke to explained to me that the reason our interest rates were increased was because they had run a spontaneous credit report on us and concluded that our credit card balances and the credit we had available from inactive accounts put us at risk of defaulting on our payments. When I pointed out that we were not late in making any payments, she agreed that our account was in very good standing, but they could still raise our rates due to this credit imbalance.

During this same time we have also had balances on other major credit cards, including an HSBC account. Although they have the access to the same information as Discover, our interest rate with HSBC has remained at 6.9 percent, far from the outrageous interest fees that Discover has been charging us.

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[1] The prepared statement of Ms. Hard appears in the Appendix on page 63.

When I look at the money that we have paid to Discover during just the last 2 years, I feel sick. Out of the $5,618 made in payments to Discover, $3,478.39 went to interest. It is hard for me to even get my mind around that. The money that Discover has made in interest charges from my husband and I over the last 5 years is probably more than what we owe them now. We were never expecting to shirk our debt responsibility. We only expected to be treated fairly. We upheld our end of the agreement with Discover but have found that they have been able to change the rules to benefit themselves.

My husband and I feel as though we have been robbed. To have so much of our hard earned money taken by a company as large as Discover seems so unfair. The stress it has caused affects us deeper than just financially. It has made us feel ashamed and foolish. We blame ourselves for letting it happen. As we struggle to overcome this financially, we also are struggling to overcome it on an emotional level. Some days this feels more difficult than the paying off of our balance.

As with most all parents, our children are more important than anything. My husband and I want only the best for them. This includes a college education, which is just a couple of years away for us. Thinking about how much the money squeezed from us by Discover would help alters the way I feel about myself as a parent. Their future is why I have come here to testify.

I hope that my voice can speak for every family out there who is going through the same thing as mine is. Thank you for your time.

Senator LEVIN. Thank you, Ms. Hard. Ms. Rushing.

TESTIMONY OF BONNIE RUSHING,[1] CONSUMER, NAPLES, FLORIDA

Ms. RUSHING. I am here before you today to tell you my recent experience with Bank of America. I am compelled by this experience to share it in hopes that by doing so you will be compelled to prevent what happened to me from happening to others.

A year ago I lost a good-paying job due to downsizing. That cost me over $20,000 in annual salary, an annual bonus, and a substantial amount in medical benefits. In spite of this, I have never missed or even been late on any payment obligations to my credit card companies.

In May 2003, I received an AAA-sponsored credit card solicitation from MBNA Bank with a 0 percent promotional interest rate. In October 2006, Bank of America replaced MBNA as the bank supporting this card. Since 2004, the interest rate was always 7.9 percent, and that did not change when Bank of America first took over. However, when I received my April 2007 statement, it showed an interest rate of 22.90 percent with a minimum payment of $674 due on May 8.

On April 21, 2007, I contacted Bank of America to discuss this change in interest rate. I asked a bank representative named Claudette why my interest rate was suddenly increased. She explained that I had been sent a change in terms and had not re-

[1] The prepared statement of Ms. Rushing appears in the Appendix on page 65.

sponded; therefore, the interest rate had been increased to 22.9. I told her that I had not received any change-in-terms notice, and if the company would either resend the notice or simply take this as my rejection of the change in terms, we could resolve this matter. Claudette told me it did not matter whether or not I received the notification; the terms of my account had been changed, and I did not have any recourse at that point other than to accept the increased interest rate, pay off the account with another credit card, or disclose my financial information to her so that AAA could renegotiate another (higher than 7.9 percent) interest rate on the account.

I felt a great deal of pressure during our entire conversation to do as Claudette wanted me to do regarding this account. I had to keep resisting from being intimidated into making the wrong financial decision. I told her the issue was that I had not received the notification of the change of terms until I received my April statement and that the April statement was my "notice of change of terms." I asked to speak with a supervisor, and she stated that one would call me back.

The only thing the supervisor, Mr. Watson, would do, when he called me, was renegotiate the interest rate to a lower than 22.9 but higher than 7.9-percent interest rate on the account. I did not want to renegotiate the interest rate. I said that I wanted to close the account at the 7.9-percent interest rate I had before, as was my right, in order that this matter be finally resolved. Mr. Watson told me the bank need do nothing it did not want to do. I asked Mr. Watson about the notification letter and why the company could not send me another copy. Mr. Watson stated that the company does not have any responsibility to keep copies; he also said that they send out hundreds of this type of form letter daily.

This matter was resolved by the card sponsor, AAA, intervening on my behalf and negotiating with Bank of America to reduce the rate to a fixed 7.99 percent. As a result of this reduction, Bank of America issued credit totaling $610.68 for overcharged interest on my account for the time my account had been at the 22.9 percent. A bank executive told me that the bank decided to change the terms because I am a good, longstanding customer, and they did not want to lose my business.

The bank's employees with whom I dealt appeared intimidating, and that disturbed me. I still remember how I felt when talking with both Claudette and Mr. Watson, her supervisor. I was not angry. I was deeply anxious about what they were insinuating about my credit.

The reason I am here before you today is because of all the people who did not get that break, who do not have the ability to write a letter that may catch a Senator's attention, who do not have the ability to carry their account for 2 to 3 months or longer, and who are now or will in the future suffer as a consequence far greater than I ever will. It is for each and every one of those that I am asking you to hear what happened to me. Thank you.

Senator LEVIN. Thank you, Ms. Rushing. Mr. Glasshof.

TESTIMONY OF MILLARD GLASSHOF,[1] CONSUMER, MILWAUKEE, WISCONSIN

Mr. GLASSHOF. Mr. Chairman and Members of the Subcommittee, my name is Millard Glasshof, and I am here with my wife, Winnifred, from Milwaukee, Wisconsin. We have 9 daughters and 26 grandchildren and 12 great-grandchildren. I have been retired since 1992.

In April 1997, I started with MasterCard of Bank One. At the time I also had a Visa card, which I paid off in December 1999. Today, I only hold one credit card, which is the MasterCard with Bank One. In March 2004, I made an agreement with the bank that I would make payments of $119 per month at 14.9 percent interest. At the time my balance was $5,837.15 and my credit limit was only $4,500, but with over-the-limit charges and finance charges, very little was taken off the balance.

In March 2005, Bank One was taken over by Chase with a balance of $5,552.85 at 14.9 percent interest with payments of $119 per month.

On my December 2006 statement, the interest had increased to 17.24 percent. I called Chase and asked why they had increased my rate, for I had been making all my payments on time. They could not explain the increase.

In January 2007, the interest was still 17.24 percent. I called Chase again, with no explanation.

In February 2007, the interest again went up to 27.24 percent. When I called this time, I was told if I made my next six payments on time that the interest would drop down to 14.9. Again, they could not explain the increase since I had not missed or been late on my previous payments.

In March 2007, in the *Milwaukee Journal* there was an article on credit cards that Senator Levin was looking into. I wrote to the Senator about my dealings with Chase. In August 2007, I received a letter from Chase that my minimum payment would change. This letter was confusing and hard to read. I read it to say my payments would be $111 per month, so that is what I paid. I called Chase on the phone, and they verified that $111 was correct. I got a late fee because I paid $111, but I was never told that it was supposed to be more. I still don't know.

In November 2007, I was contacted several times from Senator Levin's staff asking me to send information on Chase and authorizing them to contact the three major credit card bureaus, and if I would be willing to testify at a hearing on December 4, 2007, which I told them I would.

It was then that they told me my interest had dropped to 6 percent, which I had not taken notice of on my last statement.

My balance as of November 2007 was $4,957. With the interest and extra charges I was standing still. In 2½ years of making payments, my balance dropped a total of $554. I did not want to file bankruptcy so I took out a loan to pay Chase off. The interest is high, but at least I do not have any extra charges.

Thank you.

Senator LEVIN. Thank you very much, Mr. Glasshof.

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[1] The prepared statement of Mr. Glasshof appears in the Appendix on page 67.

Let's try an 8-minute round here for questions. Ms. Hard, we have analyzed your Discover credit card payments over the last 12 months, from November 2006 to October 2007. I think you have a copy of that chart.[1] It shows that during those 12 months you started off with a debt of about $8,300. You spent less than $100 on new purchases. It also shows that you made a total of $2,400 in payments over that year, $200 a month times 12. Of the $2,400 in payments, $1,900 was attributed to interest, and your debt was decreased by only $350.

Now, 2 years ago, you had an interest rate of 18 percent. Discover hiked that to 24 percent, and after a year then reduced it to 21 percent. Do you know why they hiked your rate? Were you told why?

Ms. HARD. No.

Senator LEVIN. Discover told us it was because your credit score dropped and Discover decided that the lower score—an automated score, presumably—outweighed your history of regular payments to them. Now, were you told and did you understand at the time that it was a credit score drop that led to a higher interest rate?

Ms. HARD. No, I didn't.

Senator LEVIN. Do you remember receiving a letter to that effect?

Ms. HARD. No, I do not.

Senator LEVIN. In light of your steady payments and your history of paying down your debt, you have asked Discover to restore your 18-percent rate. Have they done that now?

Ms. HARD. I think they did last week.

Senator LEVIN. Thank you.

Mr. Glasshof, your credit card situation over the last 12 months is similar, and we have a chart also for you, if you would take a look at it.[2] It shows that during the past 12 months, from November to October, you started off with a debt of about $4,800. You made no new purchases. You were charged about $1,100 in interest and $200 in fees. That means that your payments totaling $1,300 over the last year, which is $119 per month, did not reduce your overall debt at all. Is that correct?

Mr. GLASSHOF. That is right.

Senator LEVIN. You made $1,300 in payments, and you still owe the $4,800. Did you realize that your debt did not go down at all over the past year despite making the $1,300 in payment?

Mr. GLASSHOF. I noticed it quite often. I just kept looking at it, and I kept calling them up, and I said, "It seems like I am getting further behind every month I make payments. It does not take off my balance." I said, "If this keeps up, it is going to be higher in the next couple years than what I owe you today." And, of course, I do not get the right response, and I was getting frustrated. I mean, the more I paid, the further behind I was getting.

Senator LEVIN. Now, after they raised your interest rate to 27 percent, out of your $119 monthly payment, about $114 went to finance charges and $5 to reducing the debt. And then when Chase hit you with a $39 penalty fee in September for paying $111 instead of the $119 that you had been paying, that pretty much

[1] See Exhibit 2.a. which appears in the Appendix on page 138.
[2] See Exhibit 2.b. which appears in the Appendix on page 139.

wiped out all of the progress that you had made on reducing that debt.

Did you know why Chase raised your interest rate?

Mr. GLASSHOF. I was never notified at any time of my increase of my interest, which increased two or three times this year.

Senator LEVIN. Your statements that we received copies of from Chase show that you have been paying like clockwork. You have not missed a single payment in 2½ years. So it cannot be that you missed a payment as the reason for your rate hike. Is that correct?

Mr. GLASSHOF. That is right.

Senator LEVIN. Chase told us in a letter that it hiked your interest rate to 17 percent because an automated review of its closed accounts—and yours was a closed account—showed that your FICO score had dropped, and the system then raised your rate to 27 percent because you had failed to bring your balance under the $4,500 credit limit on the account.

Did anyone from Chase tell you that if you did not bring your balance under $4,500 by January 2007 that your interest rate would be raised to 27 percent?

Mr. GLASSHOF. No, they didn't.

Senator LEVIN. Now, Ms. Rushing, you have had two Bank of America cards for years, both with an 8-percent interest rate. One was affiliated with AAA, as you mentioned, the Automobile Association of America. In April 2007, Bank of America nearly tripled the interest rate on that AAA credit card from 8 percent to 23 percent, and that, as you testified, caused your monthly interest charges to balloon from about $150 per month to $450 per month.

You wrote the Florida Attorney General. You wrote the Subcommittee. You called AAA. And then after AAA's intervention, apparently Bank of America agreed to restore your 8-percent rate on your closed account and refunded, as you testified, the extra interest charges for those 2 months, which totaled about $600.

Do you know what made Bank of America change their mind?

Ms. RUSHING. No.

Senator LEVIN. When you spoke with bank personnel in that 2-month period, were you working full-time at that time?

Ms. RUSHING. Yes, sir.

Senator LEVIN. So if you had not been so persistent, would you have gotten your old rate back?

Ms. RUSHING. No, sir.

Senator LEVIN. Do you know why Bank of America raised your rate and why they raised it to high?

Ms. RUSHING. No, sir.

Senator LEVIN. Now, you did open Macy's and J. Jill credit card accounts in order to get discounts—is that correct?—on their cosmetics and clothing purchases?

Ms. RUSHING. Yes, sir.

Senator LEVIN. Did you pay those on time, do you know?

Ms. RUSHING. Yes, sir.

Senator LEVIN. Bank of America told us that they lowered your rate—excuse me, that they had raised your rate because of a low FICO score. They also saw that your debt level was very close to your credit limit. Did you know that going close to, but not over, your credit limit could trigger a new interest rate?

Ms. RUSHING. No, sir.

Senator LEVIN. What Bank of America told us is that you were getting close to your credit limit, so we assume that is something that triggered that reduced FICO score. But didn't they, in fact, send you $2,500 credit card checks which you could use, which would have then pushed you even closer to your account?

Ms. RUSHING. Yes, sir.

Senator LEVIN. Now, on retroactivity, each of you had your interest rates increased, and that increased rate was applied not just to new purchases but to your pre-existing credit card debt. So all of a sudden, the debt that you had been carrying, which was functioning with interest rates of 8, 15, or 18 percent, now were raised to 23, 24, or 27 percent. Did you know that was going to happen based on a credit scoring that did not relate to your relationship and your payment history with the credit card company but to some other credit card score? Did you know that, Ms. Hard?

Ms. HARD. No, I did not.

Senator LEVIN. Ms. Rushing.

Ms. RUSHING. No.

Senator LEVIN. Mr. Glasshof.

Mr. GLASSHOF. No.

Senator LEVIN. Ms. Hard, after you were told that you had a higher interest rate and the reason that we discovered is this FICO score, this credit card rating went down, did you still receive in the mail—well, first of all, was your account a joint account with your husband?

Ms. HARD. I believe so.

Senator LEVIN. If you look at Exhibit 16 in your book, we have determined that it is a joint account with your husband, a Discover Card.[1] After your interest rate was raised dramatically by Discover Card and it was a joint account with your husband, and presumably because some automated account said you were a greater risk although you had paid your account with Discover on time every time, did your husband receive another invitation to join a special 3.9-percent fixed APR?

Ms. HARD. Yes, he did.

Senator LEVIN. Thank you. Senator Coleman.

Senator COLEMAN. Thank you, Mr. Chairman.

Ms. Hard, you indicated that at a certain point in time you were getting your bills and you "noticed something not right." How did you notice that?

Ms. HARD. I pay the bill online, view it online, paperless statements, and it was when I noticed from a previous balance to a new balance from month to month and saw that it was almost identical, is what drew my attention.

Senator COLEMAN. Do you recall then receiving any change-of-rate forms, any change-in-term forms?

Ms. HARD. No, I do not.

Senator COLEMAN. And, Ms. Rushing, you testified that you simply do not recall receiving any change-in-term forms?

Ms. RUSHING. I did not receive one.

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[1] See Exhibit 16 which appears in the Appendix on page 174.

Senator COLEMAN. OK. And, Mr. Glasshof, your testimony was that you got a confusing letter that was hard to read. Is that correct?

Mr. GLASSHOF. That is right.

Senator COLEMAN. I am not sure if we have—is there a copy of this exhibit? It is actually Bank of America's change-of-terms notice. I am not sure if there is one in the file. Do the witnesses have a copy of that? Apparently they do not.

Ms. Rushing, you were at Bank of America?

Ms. RUSHING. Yes, sir.

Senator COLEMAN. I am not sure if you can look at all the——

Ms. RUSHING. I can read it.

Senator COLEMAN. My question is if you had received this form?

Ms. RUSHING. Sir, I work with attorneys. If I had received this form, I would know what it said.

Senator COLEMAN. And if you did not work with attorneys, would you know what it said? "We are increasing"—"Your margin for Categories A, C, and D is increasing to 15.74 percentage points." Do you know what Categories A, C, and D are?

Ms. RUSHING. Sir, I cannot say that for sure.

Senator COLEMAN. "As of April 30, the U.S. prime rate index is 8.25 percentage points." Does that mean much to you?

Ms. RUSHING. If I did not work with attorneys, it probably would not, sir.

Senator COLEMAN. It also notes that there are specific—and it is in bold: "You may reject the APR increase by following the rejection instructions described below," and there are rejection instructions. It says you have got to write a separate letter and then with a specific address.

Ms. RUSHING. I have gone through this process before.

Senator COLEMAN. You have gone through that. And then you must not use your account.

Ms. RUSHING. Right, sir.

Senator COLEMAN. Since you work with attorneys, you actually may be in a good position to respond to this. If it was in big, bold—would it make a difference if you got something that said in big, bold letters you cannot use your account after a certain date if you intend to reject? Are there certain things that you would have highlighted or want to be highlighted for the average person to simply take a look and understand this?

Ms. RUSHING. Yes.

Senator COLEMAN. And, Mr. Glasshof, do you recall receiving any form like this?

Mr. GLASSHOF. No, I didn't.

Senator COLEMAN. What would have been helpful for you, Mr. Glasshof, in terms of better understanding any change of terms and conditions? Is there something that would have been helpful, something that you can draw upon that said, yes, I think I would have gotten it if I saw this or I read something?

Mr. GLASSHOF. Well, like I mentioned before, all the increase that was given to me, I was never informed at any time that they were going to increase it. And every time they did increase it, I would call them, without getting any satisfaction.

Senator COLEMAN. Ms. Hard, have you thought about what could have helped you avoid this situation, what type of notice, what type of information, what form the information would take?

Ms. HARD. I think in simple terms, the information is not that complicated that most people could not understand what the credit card companies were saying. But I think it is deliberately misleading and confusing, so you do not really get what they are telling you.

Senator COLEMAN. Do you understand the phrase "Your margin for Categories A, C, and D is increasing to 15.74 percentage points"? Do you know what Categories, A, C, and D are?

Ms. HARD. No, I do not.

Senator COLEMAN. Do you know what the U.S. prime rate index is?

Ms. HARD. No, I do not.

Senator COLEMAN. One of the other issues raised by your testimony is what we may call lack of predictability. It sounds like not knowing why a rate has been increased can be almost as bad as a rate hike itself. Again, I am trying to see if there is anything that we can do with notice.

Ms. Hard, the challenge that you had with your situation is, as I look through the numbers, even if they had not changed the rate—your payment at 18 percent, your original payment, if you were making a $200 payment, even at that rate, unchanged rate, 75 percent is going to finance charges. So you would have been paying off this debt a long time at that level. Is that correct?

Ms. HARD. I believe you are probably correct.

Senator COLEMAN. So one of the challenges just across the board is the nature of credit card debt. If you are in, you are in, and it becomes tough to pay back at whatever the rate. So initially you may have been treading water—and you may have been treading a long time. But then, clearly, when it was jacked up, I get the sense that you felt like you were drowning——

Ms. HARD. Right.

Senator COLEMAN. When it went to 24 percent.

Ms. HARD. Exactly.

Senator COLEMAN. I am trying to get if there is a practical sense of what a credit card company can do to notify you, to give you at least a sense of what's in store for you. Ms. Rushing, in your situation, I go back to you, you are sophisticated about the legal process; you took the initiative to call. And, by the way, did you feel intimidated?

Ms. RUSHING. Yes.

Senator COLEMAN. And why did you feel intimidated? What happened that gave you that sense of intimidation?

Ms. RUSHING. It was a sense of intimidation. I felt fearful for myself. My husband is retired early because of health issues. I am the sole wage earner for my family at this point in life. We are getting older. I am 62. My husband is 65. What they were insinuating about my credit, the way they made me feel about my credit and how this is going to impact how I pay the rest of my bills—I mean, I make my payments. I keep my finances very well. But when you are faced with having made good payments—and I pay over the—I do not make the minimum payment. I make more than the min-

imum payment on all of my credit cards. But when you are faced with having made—$150 pays well on one credit card, and then all of a sudden you are making a $674 payment on a credit card, look how that will impact the rest of how I make my payments. That makes a very difficult decision for me as to how I make the rest of my payments. It was going to make a very difficult situation for me being the sole wage earner in my family. My husband does have health issues. He had a stroke in January, and he had another mini-stroke in February. We have medical issues.

So it was an extremely difficult situation for me. It made me very fearful.

Senator COLEMAN. Is there anything that the company could have done to not make you fearful?

Ms. RUSHING. They could have—they were pressuring me very hard to give them the financial information to renegotiate this above the 8 percent. They were not reasonable. They were very dictatorial. They were very adversarial. I did not feel that they were being reasonable. They made me feel fearful for me, for my credit.

Senator COLEMAN. Thank you, Mr. Chairman.

Senator LEVIN. Thank you, Senator Coleman. Under our early bird rule, Senator McCaskill you are next.

Senator MCCASKILL. Thank you, Mr. Chairman.

It is my understanding that none of you recall receiving a notification from the credit card company about the increase in the interest rate. Is that correct?

Mr. GLASSHOF. That is right.

Ms. HARD. Yes.

Ms. RUSHING. Yes.

Senator MCCASKILL. None of you recall receiving that. And yet all of the companies maintain they sent you that notification. Is that correct? Ms. Hard, did they indicate that they sent you notification that your interest rate was going up?

Ms. HARD. I believe when I initially contacted them that they said that they had sent something, and I told them I never received anything, and they went on for the explanation of why they had raised the interest rate.

Senator MCCASKILL. Did they indicate that this was a sheet of paper put in with your bill or whether you received a stand-alone communication addressed to you?

Ms. HARD. They didn't say that, but I do receive my bill in a paperless statement over the Internet, so it would not have come in the mail.

Senator MCCASKILL. OK. And what about you, Ms. Rushing? Did they indicate to you that they had sent this to you as a piece of paper stuck in your bill or as a stand-alone communication to you?

Ms. RUSHING. They were not sure how it was sent.

Senator MCCASKILL. They did not know?

Ms. RUSHING. That is right.

Senator MCCASKILL. Did you ask them how it was sent?

Ms. RUSHING. Yes.

Senator MCCASKILL. And they could not tell you?

Ms. RUSHING. That is right.

Senator MCCASKILL. And how about you, Mr. Glasshof? How did you get—did they tell you how they had sent you this notification?

Mr. GLASSHOF. No, they didn't.

Senator MCCASKILL. Did you ask them how they sent it?

Mr. GLASSHOF. I didn't know they were going to send one.

Senator MCCASKILL. OK. So you just realized by looking at your bill that the interest rate had gone up.

Mr. GLASSHOF. Right.

Senator MCCASKILL. You do not have any recollection of receiving any communication from them.

Mr. GLASSHOF. No. The statement is the only thing I had.

Senator MCCASKILL. Ms. Hard, did you say your bill comes by the Internet?

Ms. HARD. Yes, it does.

Senator MCCASKILL. OK. Either Ms. Rushing or Mr. Glasshof, do you all use the Internet to receive or pay your bills?

Mr. GLASSHOF. No, I don't.

Ms. RUSHING. I pay mine online, but I receive hard copies.

Senator MCCASKILL. OK. But you do not even get a hard copy, Ms. Hard?

Ms. HARD. No, I don't.

Senator MCCASKILL. OK. Mr. Glasshof, I was reading the paragraph where they did notify you about how they were going to change your payment, and for the record, I just want to read the paragraph that explains it, because I think it is important for people to understand that it would be easy to be confused, Mr. Glasshof.

Mr. GLASSHOF. Right.

Senator MCCASKILL. This is the paragraph: "Effective with your September 2007 billing statement, if your new balance is $10 or less, your minimum payment will be the amount of the new balance. Otherwise, your minimum payment due calculation will be the greater of the following: $10, 2 percent of the new balance, or the sum of 1 percent of the new balance, billed interest, and any billed late fees. Any amounts that are past due or over your credit limit may be added to this calculation."

Did you call them after you got this letter?

Mr. GLASSHOF. Yes, I did.

Senator MCCASKILL. And did you ask them what you were supposed to pay?

Mr. GLASSHOF. Right.

Senator MCCASKILL. And did they send you anything confirming that conversation saying what the amount was that you were supposed to pay?

Mr. GLASSHOF. No. This was all done over the phone until I got my next statement, and I paid $111 and $111 was on the statement that I had paid it. Like I say, I was confused when I read that thing, and I called them, and they verified that $111 would be my payment. But then further down the statement they had a different figure.

Senator MCCASKILL. Well, they have two figures here. They have $111 if it was the old, and then they have $159 under the new required minimum payment. But I can understand why you would want to check and see.

Now, when you got the bill after you only paid the $111, did it tell you that you had to pay more than that, and that is when you realized the $111 wasn't enough?

Mr. GLASSHOF. No, there was nothing said. That is why I continued now with the $111.

Senator MCCASKILL. And have you ever been late with your payment?

Mr. GLASSHOF. No.

Senator MCCASKILL. So there was nothing that you had done on this card that would have required—in terms of your payment history with them, that would have, in fact, required the higher interest payment?

Mr. GLASSHOF. No.

Senator MCCASKILL. There is an exhibit, Exhibit 4,[1] in our book that the Subcommittee staff put together that is, I think, very good that gives the sample of reasons provided by credit bureaus and credit card issuers to explain lower credit scores, and I am going to briefly read through some of these and ask any of you if you have ever seen it explained this way on any solicitation you have ever gotten for a credit card.

Have you ever heard, when someone has tried to get you to take out a credit card, have they ever told you that your interest rate would go up potentially on another credit card if you took it out?

Ms. HARD. Never.

Senator MCCASKILL. Ms. Rushing.

Ms. RUSHING. No.

Senator MCCASKILL. Mr. Glasshof.

Mr. GLASSHOF. No.

Senator MCCASKILL. Have you ever been told that the balances on your bank card accounts being too high could cause your interest rates to go up?

Ms. HARD. No.

Ms. RUSHING. No.

Mr. GLASSHOF. No. The only thing is you see it on your statement that you are being charged.

Senator MCCASKILL. How about the excessive utilization of revolving accounts? Has anyone ever told you that the fact that you were using a lot of revolving accounts, that might cause your credit rate to go up?

Ms. HARD. No.

Ms. RUSHING. No.

Mr. GLASSHOF. No, because I don't have any other ones.

Senator MCCASKILL. Some of these are common sense, but some of these, I think, people would be surprised to learn. It seems to me, Mr. Chairman, this would be a good list to require them to put on a notification when someone gets a credit card. I don't ever recall seeing any of these when I have been solicited for credit cards.

Thank you, Mr. Chairman.

Senator LEVIN. Thank you. Senator Warner, I think we are going to go back and forth. Thank you.

Senator Carper.

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[1] See Exhibit 4 which appears in the Appendix on page 142.

OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. Thanks very much, Mr. Chairman. I arrived, I think, after you had already finished the opportunity for Members to give opening statements, and what I want to do is just begin my questioning with a statement.

I want to thank our witnesses for coming here today and for using your own experiences to illuminate and inform us as we go forward and address these issues, whether it is in a committee of the Senate or whether it is through the issuance of regulations by the Federal Reserve and other bank regulators.

Today, as we know, millions of Americans have access to credit, and we can purchase consumer goods on credit cards and start enjoying them immediately. We, as consumers, use these purchases well. We pay them off, either at the end of the month or over time. And it is our decision. It is the consumer's decision.

Over time the cost of credit has decreased for a lot of consumers—not all. Annual fees on credit cards have for the most part disappeared. I think that is a good thing. And because of risk-based pricing, interest rates have increased for some credit cardholders while rates have also decreased for other credit cardholders. Many Americans ordinarily denied credit cards in the past have been able to get a credit card.

These improvements have encouraged many Americans to use credit cards in place of cash. If you go to the local coffee house or convenience store, you can see people paying for a $2 cup of coffee with a credit card—not always, but in instances where that makes more sense for them. A consumer chooses this method of payment in some cases to better track their expenses or in other cases to get airline miles or other benefits. But for the majority of Americans—not all, but for the majority of Americans—the credit card is a helpful tool to help us manage our household finances.

For some, however, credit card experience is not so positive, as we have heard here again this morning. Some companies engage in questionable practices that raise interest rates and impose fees on customers. I have said on many occasions that if a company cannot explain or defend its practices in public in the light of day, in a hearing like this with cameras rolling, they ought to stop those practices.

Card companies have a responsibility to manage the risk, though. But customers also have a right to know when and how the terms of their credit card accounts may be changed. From the credit card company's perspective, every transaction that they do is an unsecured loan. It is not a loan that is secured by your house. It is not a loan that is secured by a car. It is really an unsecured loan. And every time that we, as a customer, swipe our credit cards, we are in effect applying for an unsecured loan in that amount, and the interest begins accruing on that date.

Over time a customer's credit may deteriorate, and the card company will look to manage its risk imposed by that deterioration. That may mean higher interest rates or it may mean increased fees. We, as customers, have a right to know when our interest rates will be raised and when those fees are going to be imposed. We also have a right to have our payments credited to us on time.

As I mentioned earlier, the Federal Reserve is tackling this issue of disclosures, and I applaud their efforts. I believe we are going to see in the next several months the issuing of a regulation that will stipulate that when credit cards tell us what our minimum payment is, how long it is going to basically take us to pay down our debt if we make the minimum payment. That kind of approach, I think, is meritorious.

I would like to see disclosures that are in plain English and easy to understand. We have heard some of our colleagues here reading disclosures and information that is sent to customers that is difficult, really, for any of us to understand and to be able to act responsibly on. I believe there should be a gold standard also for companies, including some of the companies that are represented here today, to adhere to when telling customers what they have agreed to do. Obviously, there are many improvements that the credit card companies can make to better serve their customers, and that is all of us. Many companies have already made voluntary changes, and they ought to be applauded for doing that.

I believe it is valuable to shine a light on this industry, and that is what the Chairman is seeking to do, and not only talk about the good things that come along with access to credit—and there are good things—but also to focus on the things that need improvement.

However, in the rush to judgment, to shine a spotlight on those actions that we think are deplorable, I do not want to do anything that would restrict access to credit and force us to return to universally high interest rates and the annual fees of the past.

What I want to do in my first question, just sitting here thinking about it—and I understand that at least one of our industry witnesses will announce that they are going to stop the policy or they have stopped the policy that we are basically having our hearing on today, and I understand another does not have that kind of policy at all. But let me just say—is it Ms. Rushing?

Ms. RUSHING. Yes, sir.

Senator CARPER. Ms. Rushing, let's say you are a credit card company, I am your customer, and our other witnesses—one of them I have gotten a car loan from and the other I have gotten a mortgage for my house from, and my colleagues up here are folks who have loaned me money as well. I signed up and have an agreement to pay a certain amount of interest on the things that I charge with my credit card from you. You find out that I have stopped paying my car loan, and you find out also that I have stopped paying my mortgage on my house, and you find out that the money that I owe my creditors up here, my colleagues, that I have stopped paying those as well. Should a credit card company have the ability, given everything else that is going on in my life, should they have the ability to come in and say, maybe I ought to make this guy Carper pay a little more interest because his risk profile has increased?

Now, we have had some credit card companies here today that either do not do that—they do not—I can be delinquent on every one of my other credit obligations, and they have a policy that says they are still not going to come in and raise my interest rate. Others are just changing to that policy.

But let me just ask you, put yourself in the shoes of the credit card company. When I am not meeting any of my other credit obligations except to you, should that set off some alarms in your credit card business to say what is going on in his life and has his risk profile increased, and should I do anything about it?

Ms. RUSHING. So the question is, as a credit card company, should I do something about it because you are not meeting your credit obligations?

Senator CARPER. Yes. Just how would you react? How would you react if you were the credit card company and I am not meeting my other obligations? I am meeting my obligations to you, but not to anyone else that I owe money to.

Ms. RUSHING. OK. So you are meeting your obligations to me, but not to the other debts. You have, sir, the right. The hairs on the back of my neck should be going up. It is a business. Credit card companies have obligations to their shareholders, just like they do, like every other business does. And they should be aware when you are not meeting your debts to your other vendors and to your other obligations.

However, is raising the interest rate on your account the answer? I don't know. Is the answer telling you, sending you specific notification in clear, plain English that you no longer have any credit available to you in that account, is that the answer, as opposed to raising your interest rate? Perhaps that is the business decision that a company needs to make as opposed to raising your interest rates.

These are policy decisions that the business needs to make, what is best for their shareholders, what is best for their business, what is best for the consumer. You obviously have in you, as their consumer, someone who is in deep financial trouble if you are not making any of your obligations.

However, if, on the other hand, you have a consumer who is meeting all of his or her obligations—they are meeting all of their other debts, they are not in any way, shape, or form, not meeting any of—are meeting all of their other obligations to you and all of their other creditors, then should they arbitrarily increase your interest rate? That really is the question here today, Senator.

Senator CARPER. Alright. I think my time has expired. You have been very generous, Mr. Chairman. Thank you for your response.

Ms. RUSHING. You are welcome, sir.

Senator LEVIN. Now, presumably, these credit ratings are based on risk. Even though they are automated, that is the theory of them. In your case, when your interest rate went up, presumably based on that credit rating going down, not only was it inaccurate in your case, you were not notified in your case. But if it was a risk-based decision, isn't it kind of weird that you were then sent, as I understand it, some additional blank credit card checks in the mail?

Ms. RUSHING. Actually, Senator, if I may correct that, sir——

Senator LEVIN. Please.

Ms. RUSHING. Actually, that had been previous to when I had—at a previous time, they had given the $2,500 previous to that when——

Senator LEVIN. Previous to your interest rate going up?

Ms. RUSHING. Yes.

Senator LEVIN. OK. Then let me ask Ms. Hard, did your husband, who was a joint owner of that account with you, not receive an offer to open up a new credit card at 0 percent interest? Is that not true, after your interest rate was raised?

Ms. HARD. Exactly.

Senator LEVIN. And were you not offered more credit, as a matter of fact, after your interest rate was raised?

Ms. HARD. Yes, I was.

Senator LEVIN. It went up from $10,000 to $11,000, did it not?

Ms. HARD. Yes, it did.

Senator LEVIN. So, maybe folks should have an opportunity to explore what it is that drove their interest rate up from an automated system. None of you were given notice of that. You did not know why it happened. You were not able to have an opportunity that you knew of to challenge that. It was wrong. Each one of you were good credit risks. As a matter of fact, that automated system was not accurately reflecting a credit risk in your situation, even as to other credit cards or to other debts. Is that correct? In other words, you were paying off your other debts. You were not behind in other debts, were you?

Ms. HARD. No. That is correct.

Senator LEVIN. And, Ms. Rushing, as a matter of fact you have no idea what it was that caused that credit rating to go down.

Ms. RUSHING. I have actually—no.

Senator LEVIN. Alright. And in your case, at least, Ms. Hard, after that reduced credit rating, presumably based on risk, that you did not know about so you could challenge, after that triggered a higher interest rate in your case, nonetheless totally going in the opposite direction, you were offered an increase in your amount of credit available. Is that correct?

Ms. HARD. Yes, it is.

Senator LEVIN. And your husband, who was a joint cardholder with you on that same Discover Card, was since sent another offer.

Ms. HARD. From Discover, yes, he was.

Senator LEVIN. From Discover.

Ms. HARD. Yes, he was.

Senator LEVIN. At 0 percent interest presumably because he is such a great risk.

Ms. HARD. Right.

Senator LEVIN. OK. Does anyone else have additional questions on the second round? Did you want to ask something?

Senator COLEMAN. Could I just ask one question? Just following up on Senator Carper's statement, Ms. Rushing, if you were given notice by the credit card company—or, actually, any of the witnesses—that said for whatever reasons, and they would clearly tell you the reasons, we are going to now change your rate, the rate you came in was 6.9 percent, it is going to 15 percent, if you do not want to accept that rate, you have to stop using your credit card, you can pay off your old debt at that rate, the original rate; but if you use the card again because of changed circumstances it is a new rate, would you think there was anything problematic with that?

Ms. RUSHING. No.

Senator COLEMAN. Ms. Hard.

Ms. HARD. I think that is fair.

Senator COLEMAN. Mr. Glasshof.

Mr. GLASSHOF. No.

Senator COLEMAN. Thank you, Mr. Chairman.

Senator LEVIN. So if you knew about that, you were informed clearly and knew about it and had that opportunity, you would then think that was appropriate?

Ms. RUSHING. Absolutely.

Senator LEVIN. That is what is supposed to happen.

Ms. RUSHING. That is the way a contract works.

Senator LEVIN. That is what is supposed to happen. It did not happen in any of your cases.

Ms. RUSHING. No.

Mr. GLASSHOF. No.

Ms. RUSHING. I would have closed the account and been happy.

Senator LEVIN. Thank you. OK. Any other questions of this panel? Senator Carper, you did have one.

Senator CARPER. Yes. Thanks very much.

Just to go back to what Senator Coleman was asking, as you probably know, there are a number of credit card companies that are located in Delaware. They are subject to Delaware law. One of those laws requires credit card companies to disclose what the terms and conditions are of the accounts and when they are changed. We, as customers, have a right to contact our credit card company, and we have a right to demand that the account be closed, as Senator Coleman has mentioned. We, as cardholders, cannot make any new charges during the period but are required to make the monthly payment on the account.

Ms. Rushing, do I understand, were you the Bank of America customer?

Ms. RUSHING. Yes, sir.

Senator CARPER. Under Delaware law, they are required when they want to raise your interest rate, if you call them and say, hey, you cannot do that, or you have an obligation to me to let me pay it off at the lower rate, you contacted them and said that, didn't you?

Ms. RUSHING. Yes, sir.

Senator CARPER. And did they agree to the lower rate that they had promised you in the first——

Ms. RUSHING. No, sir. They said they had an option—they said that I could not do that, pointblank no.

Senator CARPER. Alright. We will get into this question later on with our industry panel, but my understanding was that they have an obligation to say, Alright, you owe us X dollars, we want to raise your interest rate, you can pay it off at the lower rate, but if you decide to use your card again, then the higher rate is to be charged, was that communicated to you?

Ms. RUSHING. Sir, they said I had no option except to accept the higher interest rate, pay off the account with another credit card, or to give them my financial information so that they could renegotiate with me at a higher interest rate than the 7.9 percent, but perhaps a little bit lower than the 23 percent they were trying to raise it.

Senator CARPER. Alright.

Ms. RUSHING. That was it.

Senator CARPER. And a question of our other witnesses. How many of you received a notice when your interest rate was changed?

Mr. GLASSHOF. I did not.

Ms. HARD. I did not.

Ms. RUSHING. I did not.

Senator CARPER. And how many of you contacted your credit card company and asked that your account be frozen at the previous rate and terms?

Mr. GLASSHOF. Well, I called them and asked why the increase, and they just—like I said, I didn't get no plain answer, and the increase stayed on my statements.

Senator CARPER. Alright. Have the issues that you have shared with us today been a factor as you shop around for new credit cards or different credit cards?

Mr. GLASSHOF. No, I don't have any credit cards.

Senator CARPER. OK.

Ms. RUSHING. I am not opening any new credit cards, and I am paying off the ones I have and closing them as I pay them off.

Ms. HARD. Yes, the same as her. I am not opening any new ones.

Senator CARPER. Alright. Thanks very much.

Senator LEVIN. Senator McCaskill.

Senator MCCASKILL. Ms. Rushing, when they told you that you could pay off the balance with another credit card, at that time did they explain to you that—when you pay off a credit card with another credit card, did they explain to you about trailing interest? Did they mention to you that you might incur additional interest charges on your other credit card if you used it on a transferred balance? Did they explain that?

Ms. RUSHING. No, ma'am.

Senator MCCASKILL. So there was no indication to you that, in fact, by using another credit card to pay off that balance, you were going to incur extra costs that you would not otherwise if you were just using that other credit card to make purchases?

Ms. RUSHING. No.

Senator MCCASKILL. Thank you.

Senator LEVIN. Senator Coburn.

Senator COBURN. No. It has been answered.

Senator LEVIN. Thank you. OK. We thank you all. Thank you so much for coming forward.

Ms. RUSHING. You are very welcome.

Senator LEVIN. Your testimony is going to be not only helpful to this Subcommittee and to hopefully this Congress, but also we hope it will have a positive impact on millions of credit cardholders across the country over time. We appreciate your coming forward.

Senator LEVIN. Let me now welcome our next and final panel of witnesses for today's hearing: Roger Hochschild, who is Chairman and Chief Operating Officer at Discover Financial Services; Bruce Hammonds, President of Card Services at Bank of America; and Ryan Schneider, President for Card Services at Capital One Financial Corporation. I welcome you all to this hearing, and I want to thank you all for your cooperation that you have shown to this

Subcommittee. We have some significant differences, obviously, with some of your practices, but we do not have a complaint at all about the way you have responded to requests from this Subcommittee. Quite the opposite, you have been forthcoming with information, and you have voluntarily appeared to testify, and we very much appreciate that.

Pursuant to Rule VI, all witnesses who testify before this Subcommittee are required to be sworn, and I would now ask each of you to please stand and raise your right hand. Do you swear that the testimony you are about to give before this Subcommittee will be the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. HOCHSCHILD. I do.

Mr. HAMMONDS. I do.

Mr. SCHNEIDER. I do.

Senator LEVIN. I think you heard that we will be using a timing system today. We will ask that you complete your testimony in 5 minutes, and 1 minute before the 5 minutes is over, the light will turn from green to yellow to give you an opportunity to conclude your remarks.

Mr. Hochschild, why don't you go first, followed by Mr. Hammonds, then Mr. Schneider, and then we will turn to questions. Thank you.

TESTIMONY OF ROGER C. HOCHSCHILD,[1] PRESIDENT AND CHIEF OPERATING OFFICER, DISCOVER FINANCIAL SERVICES, RIVERWOODS, ILLINOIS

Mr. HOCHSCHILD. Mr. Chairman and Members of the Subcommittee, my name is Roger Hochschild. I am the President and Chief Operating Officer of Discover Financial Services. Thank you for the opportunity to appear before you today.

The Subcommittee asked Discover to respond to several questions, which we have done in detail in our written testimony and extensive detailed oral briefings with Subcommittee staff. Over the next few minutes, I would like to talk about our pricing policies and, in particular, about how and when we reprice customer accounts.

Pricing in the credit card industry is based on the risks associated with each customer's account. When we open a new account for a customer, we make every effort to ensure the customer will be able to manage the credit we give them. But if a customer's risk profile increases, we may increase their annual percentage rate. This is largely due to the nature of a credit card compared to other loan products. Every credit card transaction can be regarded as a new loan, and we are financially responsible for every loan that is not repaid.

Before opening a new account, we take a number of steps to ensure the responsible issuance of credit. We use a rigorous process to verify income, employment, and existing debt levels to make sure each customer can manage the credit we are granting. We look at credit bureau information and at the customer's relationships with other lenders because these are important predictors as

[1] The prepared statement of Mr. Hochschild appears in the Appendix on page 69.

to how they will behave in the future. We assign credit lines that are, on average, lower than other card issuers and increase them only after the customer has established a consistent record of managing their debt. All told, we decline more applicants for credit than we approve.

Once we open an account, we give significant effort to helping customers stay current with their payments. We were the first credit card company to offer customers e-mail reminders if they get close to their credit limits or payment dates. We promote the responsible use of credit and provide online tools to help customers understand credit costs. Our grace periods are among the longest in the industry, and we stop all promotional offers, including balance transfer and check mailings to accounts that we deem to be high risk. We make more than 1.5 million calls every year to customers who appear to be struggling with their debt, even before they are delinquent, to assist them in managing their finances. And for customers who do become delinquent or over a limit, our customer assistance team works with them to try to bring their accounts current again.

At present, we have more than 350,000 customers on programs to help them make timely payments, reduce their balance, and get through a stressful period in their lives. And to ensure the quality of these conversations, we do not outsource or offshore our customer service. We use our own employees at locations in Delaware, Ohio, Arizona, and Utah.

Our efforts have had a significant positive impact on our customers. Since 2002, we have seen a reduction of more than 50 percent in the number of customers who are delinquent on their account or over their credit limit. We take care when issuing credit that the risk associated with some accounts increases over time. As risk increases, we raise prices on those accounts commensurate with the increased risk. It is not unlike the automobile insurance industry where rates may go up if you have a traffic violation, move to a different State, or other factors change which increase the projected claims costs.

That said, it is important to remember two things. When we do raise the price of a customer's account based on risk, we give that customer the option of closing the account and paying off the loan at the existing rate. And when we raise prices because of default, many of those accounts return to a lower price after we see a consistent record of on-time payments.

Let me conclude by noting that a core component of Discover's philosophy as a company is to do the right thing on behalf of our customers. With roughly 50 million customers, we are not always perfect. But I think the recent launch of the Discover Motiva Card shows we are still looking to change the industry. It is the first product that offers cash awards to customers for paying on time. We are very proud of our reputation, and we recognize that every action we take has an impact on our reputation, and we strive to ensure that we always act with integrity and fairness. Thank you.

Senator LEVIN. Thank you. Mr. Hammonds.

TESTIMONY OF BRUCE HAMMONDS,[1] PRESIDENT, BANK OF AMERICA CARD SERVICES, BANK OF AMERICA CORPORATION, WILMINGTON, DELAWARE

Mr. HAMMONDS. Good morning, Chairman Levin, Senator Coleman, and Members of the Subcommittee. My name is Bruce Hammonds, and I am President of Card Services for Bank of America.

The focus today is risk-based pricing. Let me explain how risk-based pricing works in general, the benefits of risk-based pricing for consumers, and how we at Bank of America practice risk-based pricing.

When a customer initially applies for a credit card, we use credit scores and other data to determine approval and assign an initial credit limit and interest rate. We then continuously monitor a customer's behavior, periodically repricing small riskier segments of the population using highly predictive statistical models. For riskier customers, we also decrease credit limits that govern the amount they borrow.

Today, there are two primary forms of risk-based repricing related to customer behavior: Contractual defaults and behavioral repricings, which come with prior notice and the ability to opt out.

Under the industry-wide practice of contractual default, higher interest rates may apply if the customer violates his or her obligations under the agreement, for example, by paying late. Leaving aside contractual violations, certain other behaviors indicate that a customer is more likely to default. These include their performance with us—making only minimum payments for a long time or taking large cash advances—and off-us behavior—like poor payment history, taking out numerous loans, or defaulting on loans with other lenders.

We will reprice on this basis, but the customer has the right to say no to such an increase. And usually 9 to 10 percent of those customers actually do opt out. The customer will then repay any outstanding balance under the original terms, including the original interest rate, although he or she must discontinue using the card.

To provide some perspective, over the past year only 6.5 percent of our total accounts received an interest rate increase based on repricing; 25.9 percent received a decrease in interest rate, and 67.6 percent had no change. So, bottom line, 93.5 percent of our customers now have the same or lower rate than they did at the end of last year.

Risk-based pricing has considerable benefits for consumers. Before risk-based pricing, card companies simply charged all cardholders higher interest rates, imposed annual fees and other fees, and granted credit to fewer people. Risk-based pricing has democratized access to credit and allowed prices to drop for those who pose less risk. Furthermore, experience shows that customers who are repriced often adopt better card management practices: They make more than the minimum payments, pay on time, and stay within their credit limits by charging less.

[1] The prepared statement of Mr. Hammonds appears in the Appendix on page 78.

I have described the three types of risk-based pricing, but as you know, different issuers have adopted different pricing strategies. Let me discuss why we have chosen the mix we have.

All issuers use past credit performance, including performance with other creditors, in setting initial pricing, and we are no exception. With respect to contractual defaults, there are several variables.

First, some issuers use hair trigger defaults—increasing a customer's rate based on a single default. Bank of America allows two defaults before it can reprice.

Second, issuers define "default" differently. Bank of America considers only late payments and going over limit as defaults; others include bounced checks, even if a valid payment has been made.

Third, some issuers, including Bank of America, will offer a "cure" to a lower rate with good payment behavior; others do not.

Finally, different banks employ different levels of discretion in default pricing. Only a minority of accounts that trigger default pricing at Bank of America actually get repriced.

With respect to behavioral repricing, industry practices also vary. Bank of America maintains a 12-month stand-off on its periodic risk reviews—that is, no account that has been repriced will be subject to a periodic risk-based repricing for at least 12 months. Others price less frequently. We understand one other major issuer is now at 24 months. We believe our customers like our mix of policies. They like getting a second chance if they make a mistake. They do not like being repriced based on a bounced check. They like the chance to cure a mistake, and they appreciate the ability to opt out of a risk-based repricing.

We listen to our customers. I personally have spent hundreds of hours in the last year listening to our credit card customers, and my leadership team does the same.

As these hearings demonstrate, issuers have different pricing and risk management policies. We believe competition in pricing practices is healthy for consumers. Consumers who fear they will default on other obligations but are confident they will never pay late may wish to go to our competitors; those who generally manage their credit well but occasionally forget to mail their payments may wish to come to Bank of America. And if either of us is wrong, the market will tell us that.

Of course, effective consumer choice depends upon full transparency and clarity of disclosures so consumers can make informed choices. The Federal Reserve is in the process of amending Regulation Z to better facilitate such comparisons by consumers, and we are undertaking our own efforts, which are detailed in my written testimony. Thank you.

Senator LEVIN. Thank you very much, Mr. Hammonds. Mr. Schneider.

TESTIMONY OF RYAN SCHNEIDER,[1] PRESIDENT, CARD SERVICES, CAPITAL ONE FINANCIAL CORPORATION, McLEAN, VIRGINIA

Mr. SCHNEIDER. Chairman Levin, Ranking Member Coleman, and Members of the Subcommittee, good morning. My name is Ryan Schneider, and I am the President of Capital One Financial Corporation's credit card business. Thank you for the opportunity to address the Subcommittee. The credit card is one of the most popular forms of payment in America today. It is valued by consumers and merchants alike for its convenience, efficiency, and security.

Today, the Subcommittee is focused on the issue of repricing. A flexible pricing structure is an essential tool in the safe and sound underwriting of an open-ended, unsecured credit product. Unlike mortgages, auto loans, and other closed-end, secured loans, credit cards have balances that can fluctuate significantly on a monthly or even daily basis and repayment patterns that are neither consistent nor predictable. The ability to modify the terms of the credit card agreement to accommodate changes over time to the economy or to the creditworthiness of consumers must be preserved as a matter of fiduciary responsibility. The consequences of imposing severe restrictions on the ability to reprice such loans in response to these changes could include significant reductions in the availability of credit to many and higher pricing for all, especially those historically underserved customers who pose a higher level of risk.

Although we want to take this opportunity to point out that even the most well intentioned of policy initiatives can have unintended consequences, Capital One shares many of the concerns expressed by you and other Members of the Subcommittee. We applaud your efforts to continue the discussion on what we believe to be the most challenging practice in our industry today, and that is aggressive repricing without customer choice.

Capital One testified before Chairman Dodd's committee and Chairman Maloney's subcommittee earlier this year in support of the Federal Reserve's proposal to enhance the consumer protections offered by Regulation Z. We believe that requiring card issuers to notify consumers 45 days prior to any repricing is a positive step forward. We also support the Federal Reserve's effort to expand this notice requirement to default or penalty-based repricing.

Capital One recommends, however, that the Federal Reserve go one step further by permitting customers to reject the new interest rate in exchange for stopping the use of their card and paying off their existing balance at the previous rate. This right to reject the new terms is already available to most customers through change-in-terms or notice-based repricing; however, it is not offered to customers who are repriced as a result of a default on their account.

Well in advance of the Federal Reserve's finalization of its proposed revisions to Regulation Z, Capital One has already taken several meaningful steps of its own to address concerns regarding repricing.

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[1] The prepared statement of Mr. Schneider with an attachment appears in the Appendix on page 89.

First, we have adopted a single, simple default repricing policy for all our customers that provides them with a clear warning before we will consider taking any action. Capital One will not consider default repricing any customer unless they pay 3 or more days late two times in a 12-month period. And after their first infraction, customers are provided with a prominent statement on their monthly bill alerting them that they may be repriced if they pay late again.

Even after that second late payment, the decision to reprice someone is not automatic. For many customers, Capital One chooses not to do so. If we do reprice someone, we will let them earn back their prior rate by paying us on time for 12 consecutive months, and that process is automatic. To be clear, Capital One will not reprice customers if they go over their credit limit or if they bounce a check.

Second, Capital One does not practice any form of universal default, and this has been our longstanding policy. We will not reprice a customer if they pay late on another account with us or on another account with another lender. And as the Chairman noted in his opening remarks, we never reprice a customer because their credit score goes down for any reason.

Third, when economic conditions do require us to make changes to the terms of our customers' accounts, we have already chosen to adopt the Federal Reserve's proposed 45-day advance notice period. Despite the fact that the revisions to Regulation Z have not been finalized, we believe this longer notice period strikes the right balance for us and for our customers.

Fourth, we ensure that our customers have meaningful choice and complete transparency regarding the changes to their accounts. To that end, we offer our customers the ability to reject our new terms, cease use of their accounts, and pay off their balances at their previous rate over time. We are also very proud of our industry-leading clarity and prominence of our notice, a sample of which is included in our written testimony, and up on the easel to my left.

Fifth, and finally, as a matter of longstanding practice, we will not reprice our customers via a change in terms for at least 3 years from either the time they open their account or from the time of any prior change in terms of pricing.

In conclusion, while we believe that the Federal Reserve's proposal represents a positive step forward for consumers and the industry, we do not view it as a substitute for continuously adapting our practices and policies to keep up with consumer demand, the rigors of competition, and the standards of sound banking. Capital One has over 30 million credit card customers, the vast majority of whom have a good experience with our products. When they do not, we regard that as a failure and seek to find out why. In a highly competitive market, we must continuously strive to improve our products and services if we are to attract and retain the best customers.

Thank you, and I look forward to answering any questions you may have.

Senator LEVIN. Thank you, Mr. Schneider.

Mr. Hochschild, let me ask you about the Janet Hard testimony. Did you hear that testimony?

Mr. HOCHSCHILD. Yes, I did.

Senator LEVIN. Can you explain your response and your activity relative to her card?

Mr. HOCHSCHILD. Yes, I can. First, it is a bit awkward because I would prefer not to discuss the personal financial details of our customers, but I understand she has provided a waiver.

There were several inaccuracies with that testimony, the first being that over the course of a 1-year period Ms. Hard was late in her payments to Discover three times. At that time, because we use a holistic approach that looks at both her performance on us as well as her credit bureau, because of her credit bureau score, we did not reprice her account. At a later period of time, when her credit score had also deteriorated, we did reprice that account.

I think it is important also for the record to state that the account is in Ms. Hard's name. It is not a joint account with her husband.

Senator LEVIN. Was the chart that we showed before, was that an accurate chart for that 1-year period?

Mr. HOCHSCHILD. That chart is an accurate chart for that 1-year period.

Senator LEVIN. It is accurate.

Mr. HOCHSCHILD. It is accurate

Senator LEVIN. Alright. So during that year period, she owed $8,330. Her interest charges were $1,900. She made $2,400 in payments. Is that correct?

Mr. HOCHSCHILD. Yes.

Senator LEVIN. And were they paid on time?

Mr. HOCHSCHILD. Yes.

Senator LEVIN. During that year?

Mr. HOCHSCHILD. During that year, yes.

Senator LEVIN. And then she was repriced?

Mr. HOCHSCHILD. Yes.

Senator LEVIN. So after she made those payments—or during the period of time that she made those payments, she was repriced?

Mr. HOCHSCHILD. Yes.

Senator LEVIN. And that was based on her credit score?

Mr. HOCHSCHILD. That was based on a combination of her performance on her Discover account as well as her performance on all her other debts.

Senator LEVIN. So you are saying during that year—was she ever charged a late fee during that year for making a late payment?

Mr. HOCHSCHILD. No.

Senator LEVIN. But you said that she made a late payment during that year?

Mr. HOCHSCHILD. No. In 2004, in March——

Senator LEVIN. No. I am talking about when her interest rate was raised. That is what we are talking about. Why was her interest rate raised? And then it was raised after she had consistently, for at least a year, made payments on time? Is that correct?

Mr. HOCHSCHILD. Yes.

Senator LEVIN. Alright. So then the major reason, obviously, for raising her interest rates were not that she was not paying on time, because she had paid them on time for a long period of time. It was based mainly on her credit score going down. Is that correct?

Mr. HOCHSCHILD. Yes.

Senator LEVIN. OK. Now, at our hearing in March, the CEO of Citicards testified as follows: "It has been standard practice for credit card issuers to consider raising a customer's interest rates based on behavior with respect to financial commitments to other companies." But last week he said, "We eliminated the practice altogether for customers during the term of their cards. Citi will consider increasing a customer's interest rate only on the basis of his or her behavior with us—when the customer fails to pay on time, goes over the credit limit, or bounces a check."

"Second, in order to be able to respond to general market conditions in the financial markets, the industry has traditionally kept the right to increase a cardholder's rates and fees at any time for any reason. We are eliminating this practice effective next month, so long as a customer is meeting the terms of his agreement with us. We will not voluntarily increase the rates or fees of the account until a card expires and a new card is issued."

Chase has indicated that they are going to be taking similar steps, I believe by next spring, and I understand that you, Mr. Schneider, do not increase people's rates based on their credit card score. Is that correct?

Mr. SCHNEIDER. That is correct.

Senator LEVIN. So now we have three major companies, at least, that are going to drop the practice of increasing somebody's interest rates because of a credit score which is outside of the relationship between the credit card company and the customer. Why, if it is good enough for Citibank and if it is good enough for Capital One and it is good enough for Chase, isn't that also good enough for Discover and Bank of America? Why shouldn't you do what other card companies are doing and not continue a practice which is unfair to people who have had a consistent payment record with your company? Mr. Hochschild.

Mr. HOCHSCHILD. As Mr. Hammonds said, I believe, in his testimony, different companies use different risk practices, and that is part of what the market will determine, who is successful and who isn't.

Senator LEVIN. Well, you may be more successful. I am asking about fairness.

Mr. HOCHSCHILD. Part of why I chose to go back to 2004 is that is an incident where the credit score benefited Ms. Hard. She was late three times. Virtually every other credit card company, as you have heard, would have repriced her account upwards.

Senator LEVIN. Alright.

Mr. HOCHSCHILD. We did not because of her credit score. Our credit models by the Equal Credit Opportunity Act are statistically sound and empirically derived. And I believe that not using a cardholder's behavior on their other debts as part of your predictive model is like taking the batteries out of a smoke detector. It is important criteria for how we manage the risk and the pricing in our business.

Senator LEVIN. It is not important for Citibank.

Mr. HOCHSCHILD. Again, I cannot comment on the strategies——

Senator LEVIN. It is not important for Chase?

Mr. HOCHSCHILD. I cannot comment on the strategies that other financial services companies might follow.

Senator LEVIN. Well, they have adopted that strategy following our hearing or right before our hearing last March. They have indicated that there has been no significant negative impact on their profit. This is a real problem for people. The notice that they are given that their credit score has somehow or other had an impact on their interest rate, and when you then have a big whopping increase in people's interest rates—it is very difficult for people to get through the murky information that is sent to them, by the way. That is another issue—to be informed that it is a credit score that has got nothing to do with their payment record with your company. We can go through those notices. If they are received, they are very difficult to understand or to read. That is a major problem which should be changed.

Then they are given 30 or 45 days to opt out, which is very complicated. As a matter of fact, it is almost impossible for them to find out what is the basis of that score from a credit bureau in time for them to respond, even if they are given notice and understand what the rules of the game are.

But this is a different question. This goes to fundamental fairness. These folks have made their payments on time, regularly to you. At least in the reasonable past they have done it, and suddenly they are given an increase—a whopping increase in the case of Bank of America, a big increase in the case of Discover. It is viewed, I think, by most people as being unfair. It is viewed by major credit card companies as being unfair to do that when their relationship and payment record with you has been so good.

And so I will ask you, Mr. Hammonds, Bank of America, we had here a witness who said she had an excellent payment record with you. Suddenly, based on an outside credit score—which she did not even know about. You are going to argue you gave her notice, and we can go into your notice. It is totally murky and very unclear. But assuming you did give her notice, why should she be penalized because of some outside activity—which, by the way, never happened. But putting that aside, and, by the way, she did not receive a notice. Why, if it is good enough for major credit companies such as Citibank, such as Chase, such as Capital One, to no longer take that other activity, alleged, and to cause an increase in interest rates should you at Bank of America continue that practice?

Mr. HAMMONDS. Senator Levin, let me, note that first of all—I have read what Chase has said, but I do not know until I read their disclosure statement exactly what they are doing. We do not increase rates based only on a credit score. We do increase based on a number of risk behaviors. If you look at Citibank, what Citibank has said is they will increase at 24 months. We have a 12-month stand-off. So there is a difference there, but we are doing the same thing that Citibank is doing.

Senator LEVIN. I am sorry. You are saying you do not increase the interest rate——

Mr. HAMMONDS. Just based on credit score, that is correct.

Senator LEVIN. Based on the credit score. It is a factor that goes into——

Mr. HAMMONDS. That is one of the many factors that goes into the decision, yes, sir. But we look at a variety of things: Behavior on our account, the amount of debt, whether they are paying only minimum payments and things of that nature.

Senator LEVIN. And the witness you heard this morning, why was her rate tripled?

Mr. HAMMONDS. Well, Ms. Rushing is a customer whose risk of default increased dramatically after we opened the account. We sent her our change of terms, and she, in fact, did opt out of the change in terms.

Some time later, she reactivated her account. We then sent her another change of terms, which obviously you heard Ms. Rushing say she did not get. I think we also heard Ms. Rushing say that we talked to her and asked her for updated credit information, which she did not give us. I do not think that is an unreasonable thing. We do have a responsibility to the safety and soundness of the institution. These are loans that go on forever. They can go on for 10 or 20 years. And we have a responsibility for the safety and soundness of the institution to make sure that we are doing the right thing from a credit standpoint for the institution, for our customers, and for our shareholders.

Senator McCaskill, you made a comment earlier comparing credit cards to the subprime mortgage business. I do not believe we are in that kind of shape, but I believe if we drop our ability to monitor credit, we could get there. But I think the credit card industry has done a good job of monitoring credit.

Senator LEVIN. We have received a document that was a response to our requests from this Subcommittee. The credit report that was used in the 2007 repricing of Ms. Rushing, it said the following: "We did not receive a copy of Ms. Rushing's full credit bureau report at the time of this periodic portfolio review risk. Rather, the decision was made on the basis of the FICO score and the bank's experience with the customer."

Mr. HAMMONDS. That is correct.

Senator LEVIN. So it was those two things. What was your negative experience with the customer which in 2007 caused you to increase her interest rate three times?

Mr. HAMMONDS. Well, it was the amount of total debt that the customer had and the fact that the customer was making only minimum payments.

Senator LEVIN. To the bank?

Mr. HAMMONDS. To the bank and to others as well, yes. Yes, sir.

Senator LEVIN. And the debt to you, was that above your limit?

Mr. HAMMONDS. No. It was right at the limit.

Senator LEVIN. As a matter of fact, hadn't she been sent these checks to encourage her to go right up to the limit?

Mr. HAMMONDS. She had been sent checks earlier when the risk was lower, yes, sir.

Senator LEVIN. And did those checks bring her closer to the limit?

Mr. HAMMONDS. Those checks brought her closer to the limit. The issue, sir, is——

Senator LEVIN. Then getting closer to the limit is one of the reasons that you then increased her interest rate, after you sent her checks which would get her closer to the limit?

Mr. HAMMONDS. No, sir. That is not correct. Let's take two different customers. You find many——

Senator LEVIN. No. Take her.

Mr. HAMMONDS. Well, let me just talk about two different customers: Ms. Rushing, who goes to the limit and then only makes minimum payments; or another customer who goes to the limit and pays the balance down almost every month. Obviously two completely different risks.

Senator LEVIN. That is not the question, Mr. Hammonds. The question is she was not over the limit. As a matter of fact, the checks that she was sent brought her closer to the limit, sent by you folks.

Mr. HAMMONDS. Right.

Senator LEVIN. Encouraging her to use them. It brings her closer to the limit. Then you use that against her?

Mr. HAMMONDS. No, sir, we did not.

Senator LEVIN. Yes, you did, because the only two things that you say were used relative to her increased interest rates were those two factors: She approached the limit, and her FICO score went down. Those are the two factors. That is what you told us in your statement to us when you answered questions. Were there any other factors?

Mr. HAMMONDS. Yes. Total debt and the fact that the customer was only making minimum payments.

Senator LEVIN. And so she is told that her rate is going to go up. You disclose to the people that if you do not go above the limit, we are still going to raise your rate if you have outside debts somewhere else? You tell people that?

Mr. HAMMONDS. We do not disclose that. I think Senator McCaskill made the comment that maybe there are things we should tell customers. And I agree that perhaps those things would be helpful to customers.

One of the issues I think we all have is how much we disclose, and if you put that in, what else might have to come out to supplant that. Again, we will be very happy to work with the Subcommittee on changing the notices for a change in terms or anything of this nature.

Senator LEVIN. Senator Coleman.

Senator COLEMAN. Thank you, Mr. Chairman.

One of the things that all the witnesses agreed on was they all thought that it would be fair if they were about to face a situation that their rates were going to be adjusted, if they received notice that they could understand, that they were then told that if they stopped using the card they could then not be subject to any increased risk of an increased rate, and they could pay off the existing debt at the original rate.

So to me one of the first questions becomes one of notice.

I would turn to Mr. Hochschild and then Mr. Hammonds. Is there a better way for you to do notice than you do today?

Mr. HAMMONDS. Yes, sir. I think we can make it clearer. I think we have tried. We have changed our notice and put in bold right

up at the top that you can reject these terms. And I think we can continue to improve it, and we are working on both change in terms as well as Regulation Z. So I would be very much in favor of working with the Subcommittee to make those clearer.

Senator COLEMAN. One of the problems—and I am going to turn to you in a second, Mr. Hochschild. But one of the concerns we have is we get so much information from the banks—it may be about a new offer, it may be additional checks—there is a question of what is actual knowledge, what is meaningful understanding. Is there a better way to address that? Is there something on the outside—I do not want to construct that sitting up here, but all I am saying is that I am getting a lot—I get a lot of mail and a lot of notices from the bank and a lot of different offers. But a change-in-terms notice is really significant. This one is really significant. Have you given thought as to how we can do a better job of ensuring the cardholder's actual knowledge, meaningful understanding?

Mr. HAMMONDS. Yes, sir. First of all, I do think that most customers see it and understand it. We have, as I said earlier, 9 to 10 percent opt-out of changers in terms, which I understand is a high opt-out in anything that you do. So certainly I think the majority of customers are seeing and understanding it. But we constantly also do what we call voice of the customer, listening to our customers for ways to make things better in how we can disclose terms to them. And certainly there are things we can continue to do to improve that. We have done a lot already. We have just put out a new brochure to all of our customers called "Credit Cards and You," which explains how to use a credit card, how to avoid becoming delinquent, how to avoid late fees and interest if you do not want to pay them. And so we are constantly looking at that and certainly always willing to take suggestions.

Senator COLEMAN. Mr. Hochschild.

Mr. HOCHSCHILD. I agree with Mr. Hammonds's comments. Clearly, we can always do a better job on disclosure. I think it is important not just what we send through the mail, but also on the Internet. As Ms. Hard said, a lot of our customers now get their statements online, so we need to try and use every tool we can to improve disclosure, as well as working with the Subcommittee in general on consumer education.

Senator COLEMAN. This is clearly a competitive industry, and I think that is a good thing. The benefit of that is a lot of folks have the opportunity to get lower rates than they might otherwise have. But I am interested in how people actually know the differences. Today when you buy a car, you can go online and do a comparative analysis—you compare that car to two or three others.

Mr. Schneider, you do not do bureau-based repricing. I think you have a pretty good cure policy. Among the three of you here, there are differences in what your cure policy is. There is a difference in how you do your repricing. There is a difference in opt-out terms. I know Chase gives folks flexibility to opt out even after the window is closed. We heard some testimony here about some concerns about whether folks can opt out.

How could consumers get better information regarding the difference in policies? Mr. Hammonds, your future policy will bring you down 2 percent. Was it Mr. Schneider who said that Capital

One's cure policy can bring you all the way back to the original rate? How do you educate customers so that they actually know what the competitive differences are and they can make an informed choice?

Mr. SCHNEIDER. Senator, good question. I think there are two parts to it. First, there is a continuing onus on us to continue to improve the clarity of our disclosures wherever we can. And, second, it is critical that we push forward with the Federal Reserve on their proposed revisions to Regulation Z. That proposal is to increase consumer protection through much greater clarity of disclosures. It will give a common standard in the industry around credit card discloses these things and make it much easier for consumers to compare and contrast between different offers in the competitive marketplace, and then make the choice that is best for them.

Senator COLEMAN. Mr. Hammonds.

Mr. HAMMONDS. Yes, I do agree with that also, Senator. It is not the easiest thing in the world to do, though, because customers constantly demand a lot of different choices on their credit cards. Some customers want a lot of different rewards. Others want lower rates. And there are many things that customers have to compare. But I absolutely agree we should constantly work on making those comparisons clear.

I have been in this business for almost 40 years. I have done hundreds and hundreds of hours of talking and listening to our customers. I think the vast majority of our customers get it. And certainly there is no lack of competitors for them to go to when they do not find that Bank of America is serving their interest in the way they want on a particular credit card.

Senator COLEMAN. Mr. Hochschild.

Mr. HOCHSCHILD. I would agree on competition. Most customers have several credit cards that they are using at a given time and will shift their business based on how they feel their relationship with each card is. We pioneered no annual fees and rewards in the industry. We pride ourselves on having the best customer service. And so each issuer competes in a different way, and, again, many customers have more than one card and will shift their business based on how good a job we do satisfying their needs.

Senator COLEMAN. One of the concerns, as we have looked at the cases in front of us is this: I think both Ms. Hard and Mr. Glasshof, were making payments and it really did not impact the principal very much. Even if you had not changed the rates, they would be making payments for many years with only minimal decreases in the actual principal that they owed at, say 18 percent interest. Ms. Hard was reducing, but, still looking at this, probably about 75 percent of her payment was interest. Mr. Glasshof was—15 percent was his original rate. He was making a $120 payment, probably $95 was interest and $25 was going towards principal. And so for an 80-some-year-old guy, that is going to take many years.

What do you do to help high-risk borrowers? I look at these folks, and they seem to be trapped in a cycle of credit card debt. Is there stuff that you do, is there some way that you can help them avoid that, some way to ease the burden?

Mr. HAMMONDS. Senator Coleman, if I might offer, I think a credit card is a great financial tool for the middle class. It allows

people to pay the balance in full and not pay any interest at all. But in a particular month, if a customer has a cash flow issue, just like a business, they can make a smaller payment and then pay the balance in full next month.

In our portfolio, in any given month, about 8 percent of the customers will make a minimum payment. If you look at customers making three minimum payments in a row, that drops to about 3 percent. And if you look at customers making minimum payments for a full year, you are down to like 20 basis points.

That is a high-risk customer. That is a customer that we would rather not see make a minimum payment, because there is a high probability that they are going to eventually go to default.

We have hundreds of credit analysts that are looking through our accounts and calling customers like that and asking if they can update their credit information and trying to help them with solutions, whether it is something we can do internally—17 percent of our delinquent customers, for example, we have reduced payments and interest—or whether we get them to a consumer credit counseling agency. But it does not help anybody to get customers in trouble, and customers generally who are making only minimum payments are headed for trouble. So we are constantly trying to help them.

Senator COLEMAN. Mr. Hochschild.

Mr. HOCHSCHILD. We provide a whole series of different tools to help our customers manage their debt. Some we just developed and are online where they can look at, given their rate and a certain payment, how long it will take to pay down their balance.

In addition, they can look at that before making any purchase and understand the impact of that purchase, and if they are planning an additional purchase, how much longer then they will be paying down their balance because of that purchase.

So there are a whole series of things we do to try and help our customers manage their risk.

Senator COLEMAN. I think it would be an eye opener to look at how long it would have taken either of these witnesses to pay off that credit card debt at the rate that they were doing it, and perhaps if there was a way up front for them to have understood that, they might not be in that position.

Thank you, Mr. Chairman.

Senator LEVIN. Thank you. Senator McCaskill.

Senator MCCASKILL. It seems to me, in listening to all this, that part of the problem here is that the behavior you encourage is the behavior you use to raise interest rates. And I think the statement you made, Mr. Hammonds, if you pay the balance off in full every month there will be no interest charges is simply not true. I will give you an example. Unbeknownst to me, my mother made a credit card payment on one of the cards I was paying off, and I paid off the balance. So when the bill came the next month, which it came because we had not sent them a separate letter in writing that we wanted to cancel the card, it showed that the company owed my mother $224, but there was $9 in interest charged.

So I am looking at this bill thinking, Now, how in the world does this company owe us money but we have to pay them interest this month? And, of course, the answer was that part of that balance

was either a cash advance or a transfer balance. She paid off another credit card. So the interest was charged from the first of the month even if the card had been paid off.

So it is not true that if you pay off the balance in time every month you do not have interest, not if you use one of those checks you send. That is just simply not correct.

And, by the way, that is not told to the customer when they get those checks. If it is told to them, it is not told in clear language. So what you are doing is you are encouraging your customers to go close to their credit limit. You are encouraging them to make the minimum payment by putting in very plain language what the minimum payment is, without telling them that it could put them in a hole for decades. But yet those are exactly the things you are using to raise their interest rates based on what your companies have said.

Don't you have some obligation to tell the consumer, "By the way, if you take out this credit card, because you have already got four your interest rate might go up for all of them"? "By the way, if you open this account at Macy's to get the 10 percent off, if you have an account—if you open an account, it may cause your other credit card interest rates to go up"? "By the way, if you make a minimum balance payment for an extended period of time, your interest rate may go up"? Do you feel no obligation to explain to the consumer that reality? Mr. Hochschild.

Mr. HOCHSCHILD. We have online what we put out in terms of a guide to using credit wisely, and we do the best job we can to explain to our consumers how they should be using credit.

Senator MCCASKILL. Do you tell a consumer when you solicit a credit card from them that if they take out a credit card, it could, in fact, increase their interest rate with another card they hold? Do you say that in your solicitations?

Mr. HOCHSCHILD. Depending on how their particular financial situation is, it may raise or lower their risk. One of the risk factors is taking out too many credit cards. But if you look at one of the practices we talked about in terms of utilization, in terms of using too much of your credit line, what we tell customers—and this is available to all our customers, as well as online on our public site—is we tell them to keep their total charges well below the credit limit. I could read this to you, and you can tell me whether you think it is in plain enough English. And we are doing the best we can.

"If you want to boost your credit history and credit score, you will want to keep your total monthly charges well below your credit limit. If you are going to carry a balance each month, make sure that balance never exceeds 25 to 30 percent of your maximum credit limit. Why? In calculating your credit score, you will take a hit if your balance is above that limit because it signals the creditors that you may be having financial difficulties and, thus, are a riskier borrowers."

Senator MCCASKILL. Do you send checks to customers that are at that point in their credit?

Mr. HOCHSCHILD. No. At a certain point in risk, we cut off all efforts to encourage a customer to use their card——

Senator MCCASKILL. How close to their credit limit must one of your customers be in order for you not to send them checks they can cash?

Mr. HOCHSCHILD. It varies based on the customer. Sometimes we do it even if they are not close to their credit limit but are showing signs of risk on their account as well as paying the minimum payment. So it is not even necessarily a function of whether or not they are close to their credit limit.

Senator MCCASKILL. Mr. Hammonds, do you have a calculation that you quit sending checks if someone is close to their credit limit? Or do you keep sending checks even if they are approaching their credit limit?

Mr. HAMMONDS. It is exactly the same as Mr. Hochschild described. It is based on risk. It is not based on credit line because, again, a customer can be close to their credit line today and pay it way down tomorrow. So, overall, if the risk is up, we stop sending checks.

Senator MCCASKILL. Well, I have to tell you, my experience is not what you are saying. Because of factors beyond her control, my mother was not a good risk. And it was obvious. She had a lot of cards. She was at her limit on most of them. She was trying very hard, but she kept getting checks. And, by the way, they are still sending checks. She just received another package of them. So it does not appear the reality matches what you are saying.

If your credit score drops—how many points does it take for the credit score to drop for your company to raise the rates? Mr. Schneider.

Mr. SCHNEIDER. We do not raise rates based off a consumer's credit score, so we would not look at that fact.

Senator MCCASKILL. Mr. Hammonds.

Mr. HAMMONDS. We do not raise rates based on the credit score. It would be one part of a variety of things we would look at, but there is no drop that would automatically trigger a rate increase.

Senator MCCASKILL. Mr. Hochschild.

Mr. HOCHSCHILD. The same. We do not make any decisions purely on the basis of a consumer's credit score.

Senator MCCASKILL. OK. I noticed in your testimony, Mr. Hochschild, that you said that the impact of rate increases on default. Now, common sense would tell me that the reason you are raising the rate is you are, in fact, worried that someone is going to default or you are going to have to charge off, right? Would that be correct, Mr. Schneider?

Mr. SCHNEIDER. The only reason we would raise a rate in a default situation is when a customer has paid late with us two different times in a 12-month period by 3 days.

Senator MCCASKILL. Maybe this does not apply to you because I am talking about risk-based increases, not customer behavior with you but risk-based increases similar to what some of the witnesses talked about.

Mr. SCHNEIDER. We do not look at our customers' credit bureau scores.

Senator MCCASKILL. OK. Mr. Hammonds, obviously the risk-based increases you are doing, like the woman who testified, you

would assume that is because you are worried there is going to be a default or a charge-off.

Mr. HAMMONDS. We do it because we know based on history that if you look at the variety of accounts that behave like that, the risk is higher that they will go to default. That is correct.

Senator MCCASKILL. But in reality, according to the testimony of Mr. Hochschild—and I assume it is true for you—your experience demonstrates that it does not increase the likelihood of default, correct?

Mr. HAMMONDS. Well, actually, if we raise the rate, what we have found for the most part is the customer makes higher payments and pays the account off faster. So, in fact, it lowers our risk. That is correct.

Senator MCCASKILL. So you are telling me that when your—you can demonstrate to us with numbers that when you raise the interest rate, they pay off the debt faster?

Mr. HAMMONDS. That is correct, yes, Senator.

Senator MCCASKILL. Well, I would love to see that data because I am—that is kind of counterintuitive that these people who are struggling and making minimum payments, that you are going to raise their rate, then all of a sudden they are going to up their payments and pay off the loan faster?

Mr. HAMMONDS. That is what happens in general, yes.

Senator MCCASKILL. Well, I would love to see that documentation. If you could get that for us, I would love to see—obviously, not specific to consumers, but the broad—because that does not make sense to me that would happen.

Thank you, Mr. Chairman.

Senator LEVIN. Thank you very much. Senator Carper.

Senator CARPER. Thanks, and to all our witnesses, welcome. Some of you have been before us before, and it is good to see you again.

From time to time, we in the Congress look in the mirror, and we do not like what we see. And it may be with regard to the way we raise funds for campaigns. It may be with respect to different aspects of our ethical behavior. And we change the law. They are not easy changes to make. Sometimes they take several years, but this year, after a lot of debate, we changed our ethics rules. We have changed in the past campaign finance rules as well.

When you look in the mirror, are there things that you have seen in recent years for your company practices that you felt were hard to defend and that you have changed them? Would you just cite a couple of those examples for us?

Mr. HOCHSCHILD. Sure. I think we are continually evaluating our practices both in terms of educating customers as well as in terms of the disclosures we provide. We have recently expanded, for example, the cure provision so that customers who do see an increase in their rates, if they pay on time, they will see their rates go down. And, in fact, Ms. Hard's rate has now been reduced, based on her good credit performance, back to where it was in the beginning. And so I think she has gone through that cycle.

So, again, we are always looking at what we can do better for our customers.

Senator CARPER. Alright. Mr. Hammonds.

Mr. HAMMONDS. Yes, Senator, let me just start with, not that many years ago, in the mid-1990s, what the credit card industry was like before risk-based repricing. Everybody paid an annual fee, and everybody paid 19.8 percent across the board. Today, on average, our rates are less than 13 percent in total. The drop from 19.8 to 13 percent is, I think, a good indication of the impact of risk-based repricing.

Just in recent times, over the last year or so, we reduced the amount that we charge customers for an over-limit fee. We thought that it was not fair if a customer went over limit to keep charging an over-limit fee month after month after month, and so we cut that off at three charges as opposed to keep charging them for the over-limit fee, is another example.

Senator CARPER. Alright. Thank you. Mr. Schneider.

Mr. SCHNEIDER. Senator, one of the things I am most proud of is that there are a number of practices we have not had to make changes on. For example, we have never practiced any form of universal default. We have never gone to a credit bureau to look at someone's credit score to reprice them, and we have continued to not engage in those practices.

The place I think we continue to make the most progress on is clear disclosure. We give consumers notice whenever there is a change in their account, with a substantial window, 45 days, and then give them choices in a very clear way they can understand, clear ability to opt out, clear ability to keep their existing rate, and pay off the existing balance. So clear disclosures is a place where we continue to think it is really important for us to change for the consumer.

Senator CARPER. Alright. Today we are here talking a little bit about a little too strict of a standard and somewhere in the middle is probably, I guess, the right standard. And we have seen consumers get into problems with the subprime lending because they really haven't had in too many cases not much of a standard. And here, again, we are talking about a standard that might be too strict. Somewhere in the middle there has got to be a standard that is more appropriate.

Let me just ask, each of you, I think, may be regulated by a different regulator. I am not sure that is the case, but there are several major regulators out there, and you may be. But have any of your regulators issued guidance about how to manage your credit risk?

Mr. HAMMONDS. Well, Senator, we are regulated by the Office of the Comptroller of the Currency, and they are constantly looking at how we manage risk. They have a sizable full-time staff that is in with us, and especially with any company that is as big as ours, they are looking every day at how we are managing risk and challenging us on our ability to manage things in a safety and soundness way. They have over the last 3 or 4 years tightened the rules for all credit card companies, and we have embraced those rules. So in my case, I would say I think the Comptroller of the Currency has certainly been on top of managing risk.

Senator CARPER. Thank you. The other witnesses respond, if you would.

Mr. SCHNEIDER. We are regulated by the Federal Reserve, and we are in the exact same situation as Mr. Hammonds of very frequent interaction, substantial dialogue, and very strong oversight on their part of our lending practices.

Mr. HOCHSCHILD. We are regulated by the State of Delaware as well as the FDIC and are in almost continuous dialogue with our regulators, a lot of it focused on the safety and soundness of our lending practices, but also in terms of how we treat our customers.

Senator CARPER. As a Delaware company—two of you have substantial operations in Delaware, and we are grateful for that. But as a Delaware company, under Delaware law, you have an obligation, as I understand it—if I am a customer and you decide to raise my interest rate for one of the reasons that you believe to be legitimate, do you have an obligation to tell me you are doing that?

Mr. HAMMONDS. That is correct.

Mr. HOCHSCHILD. Yes.

Senator CARPER. I do not know what it is like for my Chairman, but we get a lot of mail at our house. I go home every night to Delaware, and I usually open the mail, try to keep up with it every day. And there is rarely a week that goes by that somebody in our household does not get a credit card solicitation from somebody. We have two sons—one in high school, a senior, and one who is in college—and they even get solicitations now, too, along with my wife and me.

As a consumer, if you are going to tell me that I am going to have to pay a higher interest rate and I just do not think it is justified, I am getting literally every week applications for other credit cards with different kinds of interest rates, in some cases more attractive ones. What is to keep me from just saying to heck with you guys, whoever my credit card company is who wants to raise my rate, I am going to take advantage of one of these other rates, what stops me from doing that as a customer?

Mr. HAMMONDS. Not a thing, and customers make those choices every day.

Mr. SCHNEIDER. Nothing. It is a very competitive marketplace, and that is why we have got to take care of our customers and meet their needs, or they are going to go to one of the competition, whether it is someone sitting at this table or someone who is not.

Senator CARPER. Why do you suppose some customers do not take advantage of the marketplace and those other opportunities to lower their costs? You all talk to your customers all the time, so what contributes to that? We have got a law in my State that basically says, if somebody is going to raise your interest rate, Delaware company, they have got to tell you; and if you do not like that idea, you can tell them do not do that, they have to go back to the lower rate; and then as long as I do not charge anything else against my credit card and pay off that credit card and use somebody else's credit card. Some people obviously are not taking advantage of that. Is it because the disclosures are too confusing, I just do not understand them?

Mr. HOCHSCHILD. We do our best to provide clear disclosures, and most consumers really see offers everywhere they go for credit cards. I would argue it is one of the most aggressively marketed industries, and we all spend our time trying to take each other's

customers. Pricing is just one element. It could be customer satisfaction. It could be a rewards program. It could be an affinity to a particular organization. There are many reasons that consumers pick a card, and many of them have multiple cards. So, really, we are fighting to be the one pulled out of the wallet, not even to establish the customer relationship. And I think that is why you continue to see tremendous innovation in the credit card industry.

Mr. HAMMONDS. I agree with that, and in our portfolio this year, four times as many customers have had their interest rate lowered as have gone up.

Senator CARPER. Mr. Schneider.

Mr. SCHNEIDER. I agree with my colleagues.

Senator CARPER. Well, Mr. Chairman, I am glad we are having this hearing. I know it is probably not pleasant for all of our witnesses, but we are grateful that you are here. I think there is value in putting a spotlight on practices that are—that I think most people would think are inappropriate, in some cases unseemly. I think practices of these customers are a good deal easier to defend than the practices of some other issuers that are not here. And my hope is if we have another round of hearings along this nature, along this line, that we will bring in some of those issuers as well so that they can have their day in the sun and the opportunity to be put on the hot seat, if you will.

I look forward to the issuance of Regulation Z by the Federal Reserve, and they have spent a fair amount of time asking—saying this is what they are thinking of doing, asking customers, consumers, industry, us, what would be appropriate. And I think there is an opportunity to address some of the concerns that we have been discussing here today. And the issuance of those regulations cannot come too soon.

Thank you again, Mr. Chairman, for holding this hearing and for all of you who have shown up and testified.

Senator LEVIN. Thank you, Senator Carper.

Mr. Hochschild, let me go back to Ms. Hard's case. You say that, I guess a few days ago now, you have lowered her rate back to where it was, the 18 percent. Is that correct?

Mr. HOCHSCHILD. I was not aware of that until this morning, but, yes, that is correct.

Senator LEVIN. What changed in her risk? I know the hearing was coming up and we——

Mr. HOCHSCHILD. I can tell you——

Senator LEVIN. I wish we could have a million witnesses in front of us so all their rates would be reduced. We cannot do that, so we have to just pick some examples. But what changed in her risk profile?

Mr. HOCHSCHILD. I can tell you for a certainty it had nothing to do with this hearing. Otherwise, I would have known about it before this morning. I would tell you she called and requested a lower rate, spoke to one of our account representatives, I believe in Phoenix. That representative looked at the account, agreed that at that time she did qualify for a lower rate, and lowered her rate. We are very happy to have her as a customer.

Senator LEVIN. We are, too. We are very happy that the rate was lowered. What changed about her risk? She had been paying on time for 48 months.

Mr. HOCHSCHILD. I would have to look at the details.

Senator LEVIN. I know that, but you do not know what changed specifically in terms of her risk?

Mr. HOCHSCHILD. It could have been any number of multiple factors.

Senator LEVIN. Could it have been that her credit rating went up?

Mr. HOCHSCHILD. It very well could have been her credit rating went up.

Senator LEVIN. Could it be that by itself?

Mr. HOCHSCHILD. Her credit score is one factor in the model. Whether it was a change in that——

Senator LEVIN. I understand, but if there is no other change other than that, could it have been just that?

Mr. HOCHSCHILD. Without looking in detail, I am not sure that is the only thing that has changed. It could have been just that and——

Senator LEVIN. I am asking you, could it have been just that?

Mr. HOCHSCHILD. Yes.

Senator LEVIN. So you do base your interest rates, on some occasions at least, based purely on a change in the credit score. Is that correct?

Mr. HOCHSCHILD. No, I do not think that is right.

Senator LEVIN. There are all those other factors——

Mr. HOCHSCHILD. Those are inputs to a model.

Senator LEVIN. I got you.

Mr. HOCHSCHILD. Any one of those inputs could change.

Senator LEVIN. It could never be just a credit score change?

Mr. HOCHSCHILD. Again, it could be the change of any one of the inputs in the model.

Senator LEVIN. Including that one?

Mr. HOCHSCHILD. Including that one.

Senator LEVIN. And that by itself could trigger the increase or decrease?

Mr. HOCHSCHILD. Any factor in the model could by itself change the outcome of the model.

Senator LEVIN. And is the credit score one of the factors in the model?

Mr. HOCHSCHILD. The credit score is one of the factors in the model.

Senator LEVIN. Therefore, could the credit score by itself trigger the increase or decrease, since it is one of the factors and any of the factors in the model, when changed, could trigger an increase or decrease? That is my question.

Mr. HOCHSCHILD. The credit score, working through the model, could change sufficiently to change the outcome of the model.

Senator LEVIN. By itself?

Mr. HOCHSCHILD. By itself.

Senator LEVIN. Why did it take me so long to get that answer?

Mr. HOCHSCHILD. I am not sure.

Senator LEVIN. Now, Mr. Hammonds, would you answer that question the same way?

Mr. HAMMONDS. For Ms. Rushing?

Senator LEVIN. No. For your policy.

Mr. HAMMONDS. The credit score alone does not make the difference.

Senator LEVIN. So it could not by itself result in an increase or decrease in the interest rate? Is that what you are telling me?

Mr. HAMMONDS. I believe that is correct, Senator, yes.

Senator LEVIN. So you differ, then, with Discover?

Mr. HAMMONDS. Yes, sir.

Senator LEVIN. OK. Now let's get back to you, Mr. Hochschild. I want to show you, I think, the most recent credit card bill.[1] Do you have a copy of that there?

Mr. HOCHSCHILD. I do.

Senator LEVIN. I think Ms. Hard testified that this was a joint account. You said no, it was not. Is that your Discover bill?

Mr. HOCHSCHILD. Yes, it is.

Senator LEVIN. Does it show both their names at the top?

Mr. HOCHSCHILD. Yes, it does.

Senator LEVIN. Doesn't that indicate that it is a joint account or is there something else going on there?

Mr. HOCHSCHILD. No, a joint account refers to when both people are responsible for the account. You can also add someone as an authorized user to the account. You could add a child. You could add a parent. You could add a whole series of people to your account. That does not make it a joint account.

Senator LEVIN. But if both names are at the top of the bill, would my child, whom I have authorized to use my account, have her name on my bill at the top?

Mr. HOCHSCHILD. They might, yes, if they are also an authorized user.

Senator LEVIN. Alright. So he at a minimum is an authorized user of her account?

Mr. HOCHSCHILD. Yes. The comments referred to the fact that we had given him an offer of credit. His credit is determined independently because this is not a joint account.

Senator LEVIN. I understand. But he can use her account.

Mr. HOCHSCHILD. She has chosen to give him permission to use her account.

Senator LEVIN. Which is the same as saying yes.

Mr. HOCHSCHILD. Yes.

Senator LEVIN. Opt-out rights, let's go back to those. I think there is a certain period of time that people have to opt out if they are notified that their interest rate has gone up because there is a credit rating change. Is that correct? Let me ask you this, Mr. Hammonds. Is that correct, there is a certain number of days?

Mr. HAMMONDS. That is correct.

Senator LEVIN. And how many days is that?

Mr. HAMMONDS. It is at least 25 days.

Senator LEVIN. Alright. But there is an opt-out limit when you notify people that their interest rate has gone up and that it is

[1] See Exhibit 17 which appears in the Appendix on page 179.

based on a credit score that has gone down and that they could contact the credit bureau to get a copy of their credit report. Isn't that correct?

Mr. HAMMONDS. No, sir. We would not notify a customer that we were raising their price because of a FICO score going down. We would notify customers we might be raising their price for other risk factors, but not for a FICO score going down. And then we would provide them with a notice that would give them at least 25 days to opt out.

Senator LEVIN. Could you look at Exhibit 15?[1] This is a very lengthy, very complicated notice of an increase in credit card rates. I do not think it is fair notice. I do not think it comes close to what one of you said was clarity and transparency. But that is not my immediate question. If one can work their way through all of this and figure out what it is that is in this notice, it says here on page 2—there is no number on it, but it is page 2. Near the top is, "As part of the annual percentage rate amendment decision, we obtained consumer report information such as your accounts with other creditors from Equifax Credit Services. Equifax did not make the decision, is unable to provide the specific reasons why the interest rate was increased." Do you see that?

Mr. HAMMONDS. Yes, sir.

Senator LEVIN. OK, so you do refer them to credit bureaus. Is that correct?

Mr. HAMMONDS. We tell them we got some of the information that we made the decision on from the credit bureau. That is right.

Senator LEVIN. And that they can call that credit bureau. Is that correct?

Mr. HAMMONDS. That is correct.

Senator LEVIN. "You have the right to dispute the accuracy," as to the specific reasons for their increase in their interest rate, and then they are supposed to contact you. Is that correct?

Mr. HAMMONDS. That is correct, yes.

Senator LEVIN. Alright. But they are referred to the credit bureau since they play a role, perhaps, in their increase in interest rate?

Mr. HAMMONDS. Absolutely, yes, sir. They play a role.

Senator LEVIN. Could you say it could be a major role?

Mr. HAMMONDS. Yes, it could be a major role.

Senator LEVIN. Alright. So we got from Mr. Hochschild, after a few minutes, that it could be the exclusive reason, and from you, Mr. Hammonds, that it could be the major reason. Is that fair?

Mr. HAMMONDS. It could be the major reason, yes, sir.

Senator LEVIN. Alright.

Mr. HAMMONDS. But, sir, that is the credit bureau report, not the FICO score alone.

Senator LEVIN. Alright. But the credit bureau report is based on the FICO score, is it not?

Mr. HAMMONDS. No. I think the FICO score is derived from the credit bureau credit experience information.

Senator LEVIN. Alright. So the credit report then drives the FICO score. Is that correct?

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[1] See Exhibit 15 which appears in the Appendix on page 170.

Mr. HAMMONDS. Yes, sir.

Senator LEVIN. Alright. Now, on the opt-out, if somebody has an account which has been closed and they are not adding any purchases to it, they are told that they can—well, let me go back. A person is told their interest rates are going up. It is not because of default on payments to your company. It is based on other factors. And they are told they can opt out—at least they are supposed to be told they can opt out. Are we together so far? Is that fair enough? Except in your case, I know, Mr. Schneider, you do not follow this practice.

But they are also told in this three- or four-page notice that there is a limit on that, that they have to notify you in a certain way in a certain number of days. Is that correct? I am looking now to Mr. Hammonds and Mr. Hochschild. Is that correct?

Mr. HAMMONDS. That is correct.

Mr. HOCHSCHILD. Yes.

Senator LEVIN. They have a certain number of days to do that. Now, assume—well, first of all, do you raise rates on closed accounts, Mr. Hammonds?

Mr. HAMMONDS. I cannot recall a time when we raised rates on closed accounts. We do occasionally change some practices. We might send a change in terms.

Senator LEVIN. Might you change rates, Mr. Hochschild, on a closed account?

Mr. HOCHSCHILD. We do not do any risk-based repricing on closed accounts.

Senator LEVIN. OK. Now, let's assume that the person opts out within the time period given. At that point they are going to pay at the old rate. Let's assume that they don't add any additional purchases whatsoever, but they don't notify you. They just simply are going to not use your card anymore. If they don't notify you, they will be charged at the higher rate. Is that correct, Mr. Hochschild?

Mr. HOCHSCHILD. Yes.

Senator LEVIN. Mr. Hammonds.

Mr. HAMMONDS. Well, I guess I am a little confused. I would have thought a closed account would not have had a balance on it, Senator.

Senator LEVIN. No. Then I am using a different term than you used.

Mr. HAMMONDS. OK.

Senator LEVIN. Take someone who has an account, they have got a balance on it. You notify them——

Mr. HAMMONDS. And if they do not opt out——

Senator LEVIN. They do not notify you that they are opting out.

Mr. HAMMONDS. That is correct. Same answer.

Senator LEVIN. At that point, you get the same answer.

Mr. HAMMONDS. Yes, sir.

Senator LEVIN. They are going to be paying a higher interest rate even if they add no purchases. Is that correct?

Mr. HAMMONDS. That is correct.

Mr. HOCHSCHILD. Yes.

Senator LEVIN. OK. Now, in that circumstance, at least, why shouldn't they be able to opt out at any time? They may not have

understood your notice, your four-page notice. It may have taken them more than 30 days. You will not let someone opt out if they notify you in 50 days even though they have not made a purchase. They have got to pay a higher interest rate, and it is going to apply to the existing balance. Is that correct, Mr. Hochschild?

Mr. HOCHSCHILD. If they do not opt out——

Senator LEVIN. Within the 30 days, or whatever number of days you give them.

Mr. HOCHSCHILD [continuing]. Within the time period.

Senator LEVIN. And they do not make any purchases. They did not even understand your notice. They decided, the heck with this company, I am not adding any more purchases to this company. OK? They have increased my interest rates, the heck with them; I am going to some other company. They owe you some money, but they are not opting out. They do not even understand the opt-out notice. They are just saying to heck with you. They do not notify you. Or they notify you 10 days late. But either way they have to pay the higher interest rate—is that correct—on that balance?

Mr. HOCHSCHILD. If they do not opt out, they have to pay the higher interest rate. That is correct.

Senator LEVIN. OK. Even though they had no purchases.

Mr. HOCHSCHILD. Irrespective of what they do with their account, because——

Senator LEVIN. I am giving you that they had no purchases but they have not opted out in time, and are they still then charged the higher interest rate?

Mr. HOCHSCHILD. Yes.

Senator LEVIN. OK. Is that true with your company?

Mr. HAMMONDS. Yes, sir.

Senator LEVIN. OK. Now, that strikes me, by the way, as being manifestly unfair, if they make no purchases, why they are charged a higher interest rate on existing debt. I think it is unfair in any event, but I will leave it just in that circumstance, where people drop your card. We were talking here about all this competition that exists. They can quit using your card, and they do. But they do not understand this opt-out business, or they figured it out and they went to the credit bureau, but they went there on the 48 day instead of the 30 day, and so they are not buying anything more that they are charging on your credit card. But they are still going to be charged the higher interest rate, and it is going to apply to the existing debt. I believe that is manifestly unfair.

Now, on Capital One, let me take your circumstance. You do not use the score, the credit rating. Is that correct?

Mr. SCHNEIDER. That is correct. We do not use credit score or credit bureaus in the way that we have been discussing.

Senator LEVIN. But you do raise interest rates, obviously. And you allow people to opt out or not?

Mr. SCHNEIDER. Yes, we allow people to opt out, and we——

Senator LEVIN. Is there a time period?

Mr. SCHNEIDER. Yes, we give them 45 days' notice, which is consistent with where the Federal Reserve is moving with its Regulation Z disclosure revisions.

Senator LEVIN. And even if they make no more purchases on your card, they will be paying the higher interest rate on an existing debt. Is that correct?

Mr. SCHNEIDER. We ask them to opt out, and if they do not do that, then they will be paying the higher interest rate on the existing debt.

Senator LEVIN. Alright. You actually ask them to opt out?

Mr. SCHNEIDER. We believe in clear customer communication, and so when they get the notice—and we had our notice up on the board, and it has been submitted with our testimony.

Senator LEVIN. I do think they are a lot clearer than the other companies, by the way. I want to give you credit for that.

Mr. SCHNEIDER. Thank you.

Senator LEVIN. You actually ask them to opt out?

Mr. SCHNEIDER. Well, we give them the opportunity to opt out, so we give them a one-page part of our statement, and then another page that tells them how to opt out.

Senator LEVIN. Right, and it is clearer. But you are not asking them to. If they can understand your clearer one than the others, then they have the opportunity.

Mr. SCHNEIDER. Yes.

Senator LEVIN. OK. Let me ask, while checking with staff here. Mr. Hammonds, on the Bonnie Rushing rate, that was a huge rate increase, 8 percent to 23 percent. Does that not trouble you when you find out her history?

Mr. HAMMONDS. Well, Senator, again, I think if you go back——

Senator LEVIN. I mean her recent history, just the last 24 months.

Mr. HAMMONDS. Senator, if you go back to prior to risk-based repricing, everybody paid 19.8 on average. When you look at the risk profile of an account, we price based on that risk profile.

Senator LEVIN. Did her story trouble you?

Mr. HAMMONDS. I think we——

Senator LEVIN. From what you heard here today and assuming that she told the truth, does that trouble you?

Mr. HAMMONDS. Well, Senator, any time a consumer talks about any kind of financial difficulty, it troubles me.

Senator LEVIN. How about this time?

Mr. HAMMONDS. Sure. But I do believe we made the right risk decision on this account.

Senator LEVIN. You think it was right to raise her—to triple her interest rate based on that history?

Mr. HAMMONDS. I think it was right to price that account at that rate given the risk at that particular time, yes, Senator.

Senator LEVIN. And do you know, since she had been making her payments consistently on time for the last, what, 2 years or so. And she had two credit cards with you for years. Suddenly it was tripled. And give me the reason again that was tripled. Try me again on that one.

Mr. HAMMONDS. Just the risk profile of that particular customer.

Senator LEVIN. What was there that happened?

Mr. HAMMONDS. It was primarily, Senator, a combination of the amount of overall debt along with the customer making minimum

payments, and us asking the customer if we could update her credit history to which she declined.

Senator LEVIN. So she was making the minimum payments. She was not over her limit. Those two things, plus her credit rating, triggered the tripling of her interest rate.

Mr. HAMMONDS. Senator, one of the things that would indicate the highest degree of risk for a credit card is a customer that is making consistent minimum payments. A very small percentage of customers do that.

Senator LEVIN. Do you discourage people making minimum payments?

Mr. HAMMONDS. Yes, sir, we do. We have hundreds of credit analysts that are looking at accounts and calling out to customers and talking to them about the fact that they need to increase their minimum payment, that if they are making nothing but minimum payments, they will take years and years to pay the account off.

Senator LEVIN. And it is your policy—I want to be real clear here because I think it is good for customers to know. It is the Bank of America's policy that where someone is paying on time, regularly, month after month, at least their minimum payment—she was making more than her minimum payment, by the way, but at least the minimum payment—that even if they do not go above their limit, that something else could trigger tripling their interest rate. You think that is a fair policy?

Mr. HAMMONDS. Sir, something else can trigger a risk-based repricing.

Senator LEVIN. I know, but the only thing that happened here outside of the fact that she approached her limit, did not go over it, was cashing checks you sent her, was making her minimum payments regularly, did not miss any—made more than her minimum payments in some cases—the only other element here is a credit score that nobody can figure out what happened except that she took out a couple credit cards from a couple retailers in order to get discounts. And you think that is a fair way to treat a Bank of America customer? I just want to get a yes or no answer on her. I know that you have got a model and all the rest, but I am just saying you think that is fair treatment of a customer?

Mr. HAMMONDS. I think from a safety and soundness standpoint and for the good of both customers and shareholders, we have to price the account commensurate with the risk. Yes, sir.

Senator LEVIN. Bank of America, a woman named Marjorie Hancock had four Bank of America credit cards carrying equivalent debt loads, presumably posing the same credit risk for each card. Her interest rates on the four cards varied from 8 percent to 27 percent. So they were 8 percent, 14 percent, 19 percent, and 27 percent. How does that make sense?

Mr. HAMMONDS. Well, I think we had risk-based repriced one account. That is what I described earlier, that is we have several stand-offs when we do not reprice an account, 12-month stand-offs and so forth. And the other accounts were not eligible to be repriced because of those stand-offs.

Senator LEVIN. What is stand-off? What does that mean?

Mr. HAMMONDS. Well, for example, if we have repriced an account in the last 12 months, we will not consider another price increase.

Senator LEVIN. Are you familiar with her accounts?

Mr. HAMMONDS. I have seen the files, yes, sir.

Senator LEVIN. Were they repriced within the last 12 months?

Mr. HAMMONDS. I do not know specifically if that is the case on those. I do know that the other three hit some kind of stand-off.

Senator LEVIN. Let me close the hearing with just a very brief comment.

I believe what we have uncovered in a number of hearings now is a series of unfair practices when it comes to credit cards. Today's hearing focused on interest rate hikes on credit cardholders who were paying their bills on time. We are seeing in people like Janet Hard, people who are penalized by a drop in their credit scores. Despite her years-long record of paying her bills on time, she gets a big interest rate increase from her credit card company. We saw Ms. Hard and Bonnie Rushing being penalized by a credit score drop, possibly caused by such trivial factors as one alleged late payment on a different credit card bill or the opening of an extra credit card to get a discount on a purchase.

A woman named Gayle Corbett, whose case we looked at, engaged in a terrible game of Whack-a-Mole, which consisted of increase after increase on three credit cards, even though she had not done anything wrong and paid all of her credit card bills on time.

Our witness, Millard Glasshof, and Bonnie Rushing, another witness, and others were subjected to steep interest rate hikes out of the blue, some of which doubled or even tripled their interest rates and their finance charges.

In all those cases, these higher interest rates were being applied retroactively to existing credit card debt, forcing cardholders to pay more finance charges and higher minimum payments.

We saw consumers paying $1,300 or $2,400 on their credit card bills over the course of a year, but due to high interest rates and fees, seeing their debts shrink little or not at all.

At the same time, credit card companies are labeling consumers as higher credit risks, and they are hiking their interest rates, and too often dangle more and more offers of credit that will lead those consumers deeper into debt.

I think we have to stop these practices. I would obviously hope that the companies would stop them on their own. In the case of increasing people's interest rates based on outside credit ratings which do not relate to the relationship between the credit card company and that consumer, that should stop just the way Chase and Citi have stopped it—and Mr. Schneider's company has never used it, apparently.

The bill that we have introduced, S. 1395, to stop unfair practices in credit cards, along with Senators McCaskill, Leahy, Durbin, Bingaman, Cantwell, Whitehouse, and Kohl, would address some of these issues. It would prohibit the retroactive application of higher interest rates to existing debt. It would prohibit interest rate hikes on consumers who play by the rules with their company, that meet their credit card company's obligations, and who pay their bills on time. A lot of consumer groups have endorsed this bill. Senator

Dodd also has a bill, and there are a number of other bills which have been and will be introduced.

And all I can tell folks in the credit card industry is that I am deeply troubled by the kinds of facts which we heard about today. I would hope they would be, too. To me it is unconscionable that people who pay their bills on time to a credit card company, who do not go over the limit, are somehow given a murky notice, sometimes four and five pages of legalese, that their credit card interest rates are going up. They are told that they can get a copy of their credit rating if they will go to a certain company within a certain length of time. All of that is buried and lost in very complicated notices.

I think clarity would help a great deal. Transparency would help a great deal. A straightforward notice that if you make a minimum payment of this amount, that under your current interest rate X amount is going to go towards principal, but under the increased interest rate, if you make that same minimum payment, you are going to have a much greater increase go to your interest rate. In other words, due to that increased interest rate which is put in the notice, this is what is going to happen to you.

That clarity and transparency would help a great deal, but it does not change the fundamental problem that interest rate hikes are imposed on people who have done nothing wrong with their own credit card company. I think that violates most people's sense of fairness. It is not corrected by an opt-out provision, in my book, unless that provision is so absolutely clear in terms of the impact that it is unmistakable as to what will happen if people do not opt out.

Frankly, I would think that if people stop putting any purchases on that credit card, they ought to be able to opt out at any time under the old interest rate and not have a retroactive rate. If they stop using a credit card but do not notify the company because they either do not realize that they have to do it in X number of days, or they notify the company after those numbers of days have expired but they have not added any purchases, it seems to me it is just unfair to hit them with the significant higher interest rate on their existing debt.

So, again, I want to express the hope that our credit card industry will make some significant reforms. I hope our regulators will adopt those reforms if the industry does not. I hope that the Congress will adopt some needed changes in law to try to prevent these kinds of practices from continuing to happen.

I want to end, though, on a positive note with, again, a note of thanks to the industry for cooperating with this investigation. I know that it is not always the easiest thing to do, because we have very different points of view. But I want to express the gratitude of this Subcommittee to the industry for giving us the documents we have requested, for testifying here without being required by subpoena to do so, and all we can do in the season of good cheer is express the hope that there will be some changes in practices which will make your customers more satisfied that they are being treated fairly.

With that, we will stand adjourned.

[Whereupon, at 12:27 p.m., the Subcommittee was adjourned.]

APPENDIX

Statement Of
JANET HARD
Freeland, Michigan
Before The
Senate Permanent Subcommittee on Investigations
Hearing On
Credit Card Practices: Unfair Interest Rate Increases
December 4, 2007

* * *

Mr. Chairman and Members of the Subcommittee,

I would like to thank you for having me here today. I will begin by introducing myself.

My name is Janet Hard. I am from Freeland, Michigan, a small town in the Saginaw Bay area where my husband Bill and I have always lived. We have been married for seventeen years and have 2 teenage sons. Bill is a steamfitter/welder and I am a Registered Nurse but much of the time since having children we have chosen for me to be a stay at home mom. This decision meant significantly less income for our family but we believe the benefits far outweighed the cost. When my boys were babies I was the one who took care of them, I was there for all their firsts, first smiles, first words, first steps, the list goes on and on. They learned to read from me because I had time to read to them. When their school needed a volunteer for a class party or a chaperone for a field trip, I was always available. I would not give back the time I got to spend with them for all the money in the world, which brings me to the reason I am here.

During this time we used credit cards to make ends meet when we needed to. Maybe this wasn't the best decision, maybe we could have been more frugal with our money, but we were paying our bills on time and keeping our heads above water. We figured the time would come when our children were older that we could increase our income and payoff our accumulated debt. This no longer seems possible considering what the Discover Card Company has done to us.

This past February I noticed that something was not right with our account. We were making payments more than the minimum amount required and using the card only for an eight dollar a month Internet fee but the balance was barely moving. So I did some investigating and found the reason, our interest rate was at a whopping 24.24%. Our payment history with them, as well as other credit card companies, is very clean. We have never accrued a balance over our limit and always made our payments on time. So I thought it must be an error and called Discover immediately for an answer.

The woman that I spoke to explained to me that the reason our interest rates were increased was because they had run a spontaneous credit report on us and concluded that our credit card balances and the credit we had available from inactive accounts put us at risk of

defaulting on our payments. When I pointed out that we were not late in making a payment she agreed that our account was in very good standing but they could still raise our rates due to this credit imbalance.

During this same time we have also had balances on other major credit cards, including a MasterCard account. Although they have the access to the same information as Discover, our interest rate with MasterCard has remained at 6.9%, far from the outrageous interest fees that Discover has been charging us.

When I look at the money that we have paid in interest to Discover during just the last two years, I feel sick. Out of the $5,618 made in payments to Discover, $3,478.39 of it went to interest. It is hard for me to even get my mind around that. The money that Discover has made in interest charges from my husband and I over the last five years is probably more than what we owe them now. We were never expecting to shirk our debt responsibility. We only expected to be treated fairly. We upheld our end of the agreement with Discover but have found that they have been able to change the rules to benefit themselves.

My husband and I feel as though we have been robbed. To have so much of our hard earned money taken by a company as large as Discover seems so unfair. The stress it has caused affects us deeper than just financially. This has made us feel ashamed and foolish. We blame ourselves for letting it happen. As we struggle to overcome this financially we also are struggling to overcome it on an emotional level. Some days this feels more difficult than the paying off of our balance.

As with most all parents our children are more important than anything. My husband and I want only the best for them. This includes a college education, which is just a couple of years away for us. Thinking about how much the money squeezed from us by Discover would help alters the way I feel about myself as a parent. Their future is why I have come here to testify.

I hope that my voice can speak for every family who is going through the same thing as mine is. Thank you for your time.

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Statement Of
BONNIE RUSHING
Naples, Florida
Before The
Senate Permanent Subcommittee on Investigations
Hearing On
Credit Card Practices: Unfair Interest Rate Increases
December 4, 2007

* * *

I am Bonnie Rushing. I live in SW Florida and I work with attorneys. My profession is as a corporate paralegal. I am here before you today to relate to you my recent experience with Bank of America. I am compelled by this experience to share it in hopes that by doing so you will be compelled to prevent what happened to me from happening to others in the future.

A year ago I lost a good paying job due to downsizing. That cost me over $20,000 in annual salary, an ample annual bonus, and a substantial amount in medical benefits. In spite of this I have never missed or even been late on any payment obligations to my credit card companies or otherwise.

In May 2003 I received an AAA sponsored credit card solicitation from MBNA Bank with a 0% promotional interest rate and a 5% gasoline rebate through January 2004. In October 2006, Bank of America replaced MBNA as the bank supporting this card. Since 2004, the interest rate was always 7.90% and that did not change when Bank of America first took over. However, when I received my April 2007 statement, it showed an interest rate of 22.90% with a minimum payment of $674 due May 8th.

On April 21, 2007, a Saturday, I contacted Bank of America (FIA Card Services) ("FIA") to discuss the change in interest rate on my account. At that time I talked with Claudette. I explained that I did not understand the change in interest rate. Claudette stated that I had been sent a change in terms and had not responded; therefore the interest rate on my account had been increased to 22.9%. I explained that I had not received any change in terms notice, and if the company would either resend the notice or simply take this as my rejection of the change in terms we could resolve this matter. Claudette advised that it did not matter whether or not I received the notification, the terms of my account had been changed and I did not have any recourse at this point other than to (i) accept the increased interest rate, (ii) pay off the account with another credit card, or (iii) disclose my financial information to her so that AAA could renegotiate another (higher than 7.9%) interest rate on the account. I tried to reason with Claudette, but she pressed me very heavily to renegotiate the interest rate of this account or transfer the balance of this account to another credit card.

When I was going through this process I could not believe that a bank could be so unwilling to help a customer with this type of an issue. I kept trying to find a way to understand

why they were so uncooperative. The bank's employees with whom I dealt appeared intimidating and that disturbed me. I still remember how I felt when talking with both Claudette and Mr. Watson, her supervisor. I was not angry, I was deeply anxious by what they were insinuating about my credit and this account. The outcome of this matter was going to deeply affect how I paid my other bills and significantly impact my financial situation. I am the major wage-earner in my family because my husband is retired due to health issues. Our income is supplemented some by his small pension and social security.

I felt under a great deal of pressure during our entire conversation to do as Claudette wanted me to do regarding this account. I had to keep resisting from being intimidated into making the wrong financial decision. I advised that the issue was that I had not received the notification of the change of terms until I received my April statement and that the April statement was my "notice of change of terms." I was now contacting the company and advising that I was rejecting the change. I did not want to renegotiate the interest rate. I then advised that I wanted to close the account at the 7.9% interest rate I had before, as was my right, in order that this matter be finally resolved. Claudette said that was not an option. I asked to speak with a supervisor and she stated that a supervisor was not available. She stated that if I wanted, one would call me back within 24 hours and I requested that a supervisor do so.

The only thing the supervisor, Mr. Watson, would do, when he called, was renegotiate the interest rate to a lower than 22.9% (but higher than 7.9%) interest rate on the account. I just wanted to be reasonable and close the account at the 7.9% interest rate, pay off the balance and never use the account again. Mr. Watson rejected that compromise and indicated that the bank need do nothing it did not want to do. I asked Mr. Watson about the notification letter and why the company could not send me another copy. Mr. Watson stated that the company does not have any responsibility to keep copies; he also said that they send out hundreds of this type of form letter daily.

This matter was resolved by the card sponsor, AAA, intervening on my behalf and negotiating with Bank of America to reduce the rate to a fixed interest rate of 7.99 percent. As a result of this reduction, Bank of America issued credit totaling $610.68 for overcharged interest on my account for the time my account had been at the 22.9% interest rate. A bank executive told me that the bank decided to change the terms because I am a good, long-time customer and they did not want to lose my business. I think that a company does not treat a good, long-time customer, whose business it does not want to lose, as I was treated by its employees.

The reason I am here, before you today, is because of all the people who did not get that break, who did not have AAA behind them, who do not have the ability to write a letter that may catch someone's attention, who do not have the ability to carry their account for 2-3 months or longer, and who are now or will in the future suffer as a consequence, far greater than I ever will. It is for each and every one of them that I am asking you to hear what happened to me.

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Statement Of
MILLARD GLASSHOF
Milwaukee, Wisconsin
Before The
Senate Permanent Subcommittee on Investigations
Hearing On
Credit Card Practices: Unfair Interest Rate Increases
December 4, 2007

* * *

Mr. Chairman and Members of the Subcommittee, my name is Millard Glasshof, and I am here today with my wife Winnifred from Milwaukee, Wisconsin. We have nine daughters, twenty six grandchildren and twelve great grandchildren. I retired in May 1992.

In April of 1997, I started with MasterCard of Bank One. At that time I also had a Visa card, which I paid off in December 1999. Today, I hold only one credit card, which is the MasterCard with Bank One. In March 2004, I made an agreement with Bank One that I would make payments of $119.00 per month at 14.99% interest. At that time, my balance was $5,837.15 and my credit limit was only $4,500, but with over limit charges late fees and finance charges, very little was taken off the balance.

In March 2005, Bank One was taken over by Chase with a balance of $5,552.85 at 14.99% interest with payments of $119.00 per month.

On my December 2006 statement, the interest had increased to 17.24%. I called Chase and asked why they had increased my rate, for I had made all payments on time. They could not explain the increase.

In January 2007, the interest was 17.24% again. I called Chase again, with no good explanation.

In February 2007, the interest again went up to 27.24%. When I called this time, I was told if I made my next six payments on time that the interest would drop down to 14.99% again. Again, they could not explain the increase since I had not missed or been late on my previous payments.

In March 2007 in the Milwaukee Journal there was an article on credit cards that Senator Levin was looking into. I wrote to the Senator about my dealings with Chase. In August 2007, I received a letter from Chase that my minimum payments would change. This letter was confusing and hard to read. I read it to say my payments would be $111.00 per month, so that's what I paid. I called Chase on the phone and they verified that $111.00 was correct. I got a late fee because I paid $111.00 but I was never told that it was supposed to be more. I still don't know.

Early in November 2007, I was contacted several times from Senator Levin's staff asking me to send information on Chase and authorizing them to contact the three major credit card bureaus, and if I would be willing to testify at a hearing on December 4, 2007, which I told them I would.

It was then they told me my interest had dropped to 6%, which I hadn't taken notice of on my last statement. My balance with Chase as of November 2007 was $4,957.99. With the interest and extra charges I was standing still. In two and one half years of making payments, my balance dropped a total of $554.86. I didn't want to file bankruptcy so I took out a loan to pay Chase off. The interest is high, but at least I do not have any extra charges.

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Statement of
Roger C. Hochschild
President and Chief Operating Officer
of
Discover Financial Services
Before the
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
United States Senate
December 4, 2007

Mr. Chairman and Members of the Subcommittee, on behalf of Discover Financial Services,[1] I appreciate the opportunity to appear before you today to discuss the pricing of credit cards, and how credit card prices are adjusted.[2] The recent failures in the subprime mortgage area, attributable in no small part to lapses in credit underwriting and risk management, make today's inquiry to credit card lenders' pricing and risk management strategies particularly timely.

Interest rates are important to consumers, particularly those who carry a balance. But credit card users care about more than just a credit card's interest rate. Since Discover® Card was launched a little over 20 years ago, we have always offered both an attractive interest rate *and* a better product. We entered the market with a unique card: it charged no annual fee, and offered the groundbreaking Cashback Bonus® award that allows customers to receive up to 1% of their purchases back as a cash reward. (By year end, we'll have returned more than $7 billion to Discover Cardmembers since the program began.) Discover® Card also came with a level of service that was unknown at the time in the industry: "24/7" toll-free service lines, staffed with knowledgeable representatives empowered to respond rapidly to Cardmembers' needs.

We still offer these features, and have built on them. For example, this year we introduced the Discover Motiva Card. Another industry first, Motiva provides an extra reward in the form of interest relief to consumers who pay their bills on time. Cardmembers who make six consecutive on-time payments earn a Cashback Bonus award equal to the amount of the finance charges shown on their next monthly statement.

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1. Discover Financial Services is a leading credit card issuer and electronic payment services company with one of the most recognized brands in U.S. financial services. The company operates the Discover® Card, America's cash rewards pioneer, with more than 50 million Cardmembers, and is one of the largest card issuers in the U.S. Its Third-Party Payments business consists of the Discover Network, with millions of merchant and cash access locations, and PULSE, one of the nation's leading ATM/debit networks. Discover also operates the Goldfish credit card business in the United Kingdom.

2. This statement responds to the questions the Subcommittee asked Discover to address in its letter of November 20, 2007.

This encourages payment behavior that avoids late fees and interest rate increases while also lowering the balance owed on the account.

We continue working to understand what our customers want, and then try to create products and services that meet their needs. There are some things we don't do:

- We don't target subprime borrowers or offer a Discover® Card to everyone who applies: we turn down more applicants than we approve, and help our customers manage their accounts. This is working: charge-offs are near historic lows.

- We don't outsource loan origination or loan servicing: every Discover® Card we issue is underwritten by us, held in our portfolio, and serviced by Discover. We view the customer relationship as a long-term arrangement - and so do our Cardmembers. Discover has ranked number one in the industry for customer loyalty 10 years in a row. [3]

- We don't outsource customer service: every service call is made or answered in-house by a Discover employee in one of our service facilities across the United States. Our staff members know our products, and how our customers want to be treated.

- We don't walk away from Cardmembers who experience problems. We offer account management information to all Cardmembers, and proactively reach out to offer assistance to those who appear to be having difficulties, as demonstrated by repeated minimum-only payments, overlimit transactions, or late or missed payments.

With 50 million Cardmembers, it is not possible to please everyone, but we think we do a good job responding to Cardmembers' expectations. We're proud that Discover recently received high marks from credit cardholders in the JDPower & Associates customer satisfaction study. Discover was the only credit card that ranked first or second in every category covered by the study. Consumers reported that Discover had the lowest incidence of problems among the 10 largest issuers, and ranked us highly for problem resolution. We ranked second for "fees and rates." (Incidentally, when JDPower asked cardholders to rank the 5 credit card features that are most important to them, "fees and rates" came in fourth, behind benefits, rewards and the billing and payment process, and above "problem resolution.")

Having discussed some of the features and customer service components of our cards, let me now address the manner in which we set the interest rates for them, and how those rates can change.

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[3] Brand Keys Customer Loyalty Engagement Index, 1997-2007. Discover also was ranked "Best in Class" for customer loyalty in Gallup's 2006 and 2007 surveys.

Risk-Based Pricing

Like other card issuers, Discover's practices in this area have evolved over time as we have developed the ability to better target offers and have become increasingly sophisticated in managing individual consumer risk. This has allowed Discover and other credit card banks to move beyond a one-product, one-price-fits-all credit card environment. Credit card loans, unlike home mortgage or car loans, are not one-time extensions of credit with balances that decline over time and are secured by assets that can be repossessed if the borrower defaults. Credit cards provide open-end credit lines that the borrower can access over the life of the account as needed. Every card transaction is a new extension of credit, dependent solely on the borrower's ability and willingness to repay. This makes it difficult - and risky - to underwrite, and price, the loan based solely on the borrower's creditworthiness at the time of application.

The ability to make risk-based and default-based price adjustments to annual percentage rates (APRs) allow us to offer credit to a wider segment of the public, and to price credit at a level appropriate for each borrower. Lower risk customers are offered higher credit lines and lower APRs, so many credit card users have seen the costs of credit come down. Higher risk customers - those more likely to default on their loans - receive lower credit lines, and are subject to higher APRs if they carry a balance- - but they have a better chance than in the past of qualifying for the credit they need.

Risk-based pricing provides tangible benefits to consumers. Its use has allowed interest rates for credit cards to decline, even though many of the costs of extending credit have not. In the words of former Federal Reserve Chairman Alan Greenspan:

> "Experience indicates that access to the information assembled by [credit reporting agencies] and credit evaluation systems based on that information have improved the overall quality and reduced the cost of credit decisions while expanding the availability of credit." [4]

Establishing an Account APR

Discover uses proprietary risk-modeling programs to identify the characteristics of existing customers that are associated with responsible credit usage and payment behavior. We compare these to attributes of new credit card applicants and to customers whose risk is being evaluated in connection with applications for higher credit lines or as part of a portfolio review. Information from the consumer (furnished on the card application) and from other sources, notably consumer reporting agencies, is also used to gauge the individual's repayment capacity, past use of credit, current debt level, and the extent to which other credit lines are being utilized. This information is used to derive internal custom behavior scores that predict the likelihood that a customer will repay the credit we extend, based on our own and other lenders' experience with the individual and similar customers.

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[4] Letter of Alan Greenspan, Chairman of the Board of Governors of the Federal Reserve System, to the Hon. Michael N. Castle (July 22, 2003).

Of course, credit card pricing involves more than just an individual accountholder's default risk. The price of credit also must reflect all of the costs of offering it, and a portion of these costs must be borne by every customer, regardless of their level of credit risk. These costs include the costs of the funds we borrow, fraud losses, information technology expenses, operational costs (such as the cost of processing and mailing millions of monthly statements), customer service expenses, collection costs, and regulatory compliance costs. Setting a price that an individual will pay must be based on our best estimate of what these costs will be, but marketplace circumstances inevitably intervene, making the process of estimating expenses difficult indeed.

Our pricing models are constantly updated, tested and improved not only to meet our needs and those of our customers, but also the interests of some important third parties. Because our cards are issued through a federally insured depository institution, Discover Bank, we must demonstrate to our regulator, the Federal Deposit Insurance Corporation, that our risk management techniques are adequate to prevent losses to our portfolio, the deposit insurance system, and ultimately the taxpayer. Bank regulators require institutions engaged in credit card lending to do so "in a safe and sound manner by establishing sound account management, risk management and loss allowance practices."[5] The regulators are quite familiar with risk-based pricing and understand its importance as a risk management tool. They require us to document and analyze decision factors we utilize, such as repayment history, risk scores, behavior scores and other criteria. We also must demonstrate to them that our risk modeling systems conform to the requirement of the Equal Credit Opportunity Act that they be "empirically derived and statistically sound."

Risk-based pricing also addresses investors' expectations that returns be commensurate with the unique risks and costs associated with unsecured credit card lending. Both our own shareholders and investors in Discover securities backed by credit card receivables [6] expect us to extend credit responsibly and prudentially. Risk-based pricing is an important tool that supports our ability to meet those obligations.

Changes in Interest Rates

The annual percentage rate that an individual cardholder pays can change for several reasons, such as (1) changes in the underlying index to which a variable APR is linked or the expiration of a temporary APR, (2) changes driven by the customer's payment behavior ("default-based pricing), and (3) changes to the account's pricing terms made to reflect changes in cost or risk to the portfolio ("risk-based pricing). Default-based and

[5] "Account Management and Loss Allowance Guidance for Credit Card Lending" issued jointly by the Office of the Comptroller of the Currency, FDIC, Federal Reserve and Office of Thrift Supervision, January 8, 2003.

[6] Discover Financial Services became a public company on July 1, 2007, with shares trading on the New York Stock exchange. Discover regularly securitizes its credit card receivables, an increasingly important means of funding our lending.

risk-based APR changes are discussed below[7]. Cardmembers are informed of the manner in which their APRs may change in the Cardmember Agreement they receive at the time the account is opened. If these terms change, notification is given in advance, and the customer can choose to avoid the new terms by closing the account and paying off the current balance under the existing terms.

1. Default-Based Interest Rate Changes

Default-based credit cards provide that the APR will increase if the customer "defaults" on his or her obligations. Under the default rate plan in the current Discover Cardmember Agreement, default means the failure to make a required Discover Card payment - of at least the minimum due - on time. (This is not a "universal default" plan where an APR increase is triggered by a default - missed payment - with another lender).

For a number of reasons, most accounts that experience a payment default are *not* repriced under the Discover plan. When an account is repriced, the default APR is not the same for all customers who miss a payment, and the APR does not automatically increase to the maximum default-rate APR (currently 28.99%). It may instead go to an APR between the pre-default rate and the maximum. The default APR for a specific account, and the percentage above the pre-existing rate at which it is set, is based on a variety of factors, such as the current APR, the customer's payment history on the account, and the customer's overall debt management behavior. This allows Discover to differentiate between customers whose missed payment is an indicator of a risk that future payments will not be made and the account may ultimately charge off, and those for whom the missed payment does not appear to signal a long-term problem.

a. Avoiding Default-Based APR Changes

Unlike APR changes on variable rate credit cards that are triggered by decisions at the Federal Reserve and financial market events over which the customer has no control, default-rate changes are completely within the control of the customer. They can be avoided by making timely payments, and most Discover Cardmembers do just that. In fact, late payment behavior has declined over time. For one thing, a growing percentage of our Cardmembers pay us via the Internet and are readily able to avoid late payments and fees - and default-based APR increases - by scheduling their online payments to be made on or before the payment due date. Others avoid late payments by making pre-authorized debit transfers or no-fee telephone interactive voice response payments. Many

[7] Variable APR cards tie the interest rate to an external index, generally the Prime Rate. They reduce the lender risks associated with increases in the cost of funds, and allow cards to be offered at lower APRs. When the index rate (e.g., Prime Rate) changes, the APR changes with it - increasing or decreasing. As with other variable rate credit products, like home equity loans, APR adjustments apply to the current balance as well as to future extensions of credit. Cards that carry introductory or promotional APRs are similar. When the temporary introductory or promotional time period ends, the APR automatically adjusts to a predetermined APR in accordance with the terms of the offer, and applies to any portion of the balance that the customer has not paid down during the introductory/promotional period.

take advantage of our no-fee e-mail reminders, sent a few days before the due date, a service we pioneered.

b. Automatic Re-Adjustments of Default-Based APRs
The small percentage of Discover Cardmembers who experience an APR increase because of a payment default have an opportunity to return to a lower APR. If these customers make nine consecutive on-time payments of at least the minimum due, the APR for new purchases is automatically reduced, and the APR on any existing balance is eligible for a reduced rate. For these customers, the default-based APR increase has a short-term impact. The amount of the APR reduction, like the amount of its increase, depends on the current risk profile of the customer. In some cases, the rate reverts to the rate in effect prior to the default. Otherwise it will be set at a level between the pre-default and default-rate APR.

c. Impact of Default-Based APR Increases
We are sometimes asked why a lender would increase the APR on an account that shows signs of increased risk. Doesn't a higher APR actually *increase* the risk that the customer will fall behind and perhaps default on the loan? The answer, in a word, is "no." The last thing that any lender wants to do is to increase the odds that the loan will not be repaid. There is nothing to be gained by adding additional interest to an account balance if that interest, along with the principal balance, will end up being written off because the loan became unaffordable and payments ceased. We take all necessary steps to make sure that does not happen.

We continually evaluate the default rate program, and make adjustments, if necessary, to make sure that it does not have an unintended impact or harm at-risk customers. Our models exclude accounts from default-based (and risk-based) repricing if there are signs that the customer would not be able to make the payments at the higher APR. We compare the performance of accounts that are repriced with the performance of accounts of customers with similar risk profiles that are not repriced in order to be assured that the program does not increase the likelihood of default. Our experience demonstrates that it does not.

Default-based pricing has been successful in identifying, and allocating costs to, customers most likely to default, while creating incentives for them to avoid future default. Customers respond to repricing in a number of ways:

- For many, the higher APR is a reminder that results in behavioral changes. In some cases, the customer simply becomes more diligent about meeting payment deadlines. The account APR is automatically reduced once on-time monthly payments have been made.

- Other customers react by changing their purchasing behavior (reducing purchase or cash advance transactions or stopping them altogether), so that payments amortize the account balance more rapidly, even at a higher APR.

- Some cardholders change their payment amounts: minimum-payment or low-payment customers may begin making larger payments, again reducing their long-term costs. In some cases, the entire balance is repaid, sometimes from savings, sometimes with funds borrowed elsewhere (such as home equity lines, or low-APR balance transfers to other credit card lenders).

- Another group of customers receive relief from the higher APR by contacting Discover directly, or indirectly through credit counseling programs. They may enter into payment arrangements that involve APR relief, fee waivers, reduction in principal or a combination of payment concessions. In cases where the customer's risk profile shows signs of improvement, interest rate reductions may be offered to encourage the consumer to remain a Discover Cardmember.

3. Risk-Based Interest Rate Changes

Risk-based APR changes are not triggered by a payment default with Discover, but are based on other signs of changes in the underwriting and portfolio risk information that was used at the time a customer's account was opened or the current APR was assigned to the account. A customer's payment record with Discover is not the only pertinent indicator of risk. Just as an automobile insurer considers more than just timely premium payments in setting rates to cover future claims (e.g., information about where the policy holder lives, age group, accident claims and driving infractions), credit card lenders need to consider a borrower's total credit picture in evaluating the likelihood of future default. Information about how a customer uses credit extended by others may dictate a need to update credit decisions made at an earlier time. Changes in a customer's credit attributes (e.g., high utilization of credit lines, persistent minimum-only payments, recent changes in spending or payment behavior, excessive uses of cash advances, growth in the number of credit accounts) may signal a need to reevaluate the APR for the account. For example, individuals whose FICO scores decline by what might appear to relatively small number of points represent a substantially greater charge-off risk.

In some cases, the need to change pricing for a segment of the portfolio is driven by changes in the business, regulatory or competitive environments that increase costs or reduce revenues. Repricing of a portfolio segment allows credit card lenders to adjust pricing to risk and cost over time, as these changed circumstances require.

Risk-based APR changes are not made frequently and do not affect large segments of our customers. They are made when necessary and are targeted to carefully defined customers or groups.

Moreover, risk-based APR changes are not unilateral changes that the customer must accept. When changes in individual risk or portfolio risk lead to a decision to change the APR or other pricing terms of an account, the customer receives a change in terms notice that explains the new provision. The Truth in Lending Act currently requires these notices to be sent to the consumer 15 days in advance of the terms change. In Delaware, where Discover Bank is located, the law requires that customers also be given an

opportunity to pay off the existing account balance at the APR that was in effect before the change was made. Card issuers are required to send customers an explanation for a change in terms that adversely affects the customer. This "adverse action" notice must identify the specific reasons that led to the decision or offer the customer the opportunity to obtain that information, and inform the customer of the right to dispute information from credit bureaus that was used in the decision making if the customer believes it was inaccurate or incomplete.

a. Impact of Risk-Based APR Changes
Customers affected by risk-based price increases, like those whose APRs increased because they defaulted on payments to Discover, respond in a variety of ways. Some customers take advantage of the opportunity to make payments on the existing balance under the "old" account terms, and close their accounts before the higher APR takes effect. Others pay off the balance in full or move it to another credit card that offers a lower balance transfer rate. Many customers do not make a change. They continue to have access to their credit card for future purchases and make payments at the higher APR. The impact of the APR change on these customers depends on amount of the increase, the size of the account balance and the dollar amount of the payments the customer makes. The change does not affect customers who do not carry a balance (a large segment of card users) and would have a minimal impact on those who carry a small balance or who increase their monthly payments in order to pay off the higher-APR balance quickly.

b. Re-adjustments of Risk-Based APR Increases
All customers whose risk profiles improve are eligible for APR reductions during regular portfolio reviews that adjust price to risk. I mentioned previously that Discover customers subject to default-based APR increases can "earn" a lower APR automatically by improving their payment behavior through on-time payments. We are currently testing ways to provide similar opportunities to customers whose APRs are increased through risk-based terms changes. These customers are now eligible for reduced rates when there is an improvement in the risk factors on which the APR increase was based, and receive automatic deceases when variable rate APRs move downward. We are examining the impact of tying APR reductions to specific payment behavior, account usage, or other criteria.

As you know, the Federal Reserve Board has recently proposed that the change of terms notice for risk-based price increases be sent 45 days in advance of the change, not 15 days, and that all credit card holders (not just customers of Delaware-based banks) be given a right to opt out of the change – and repay the existing balance at the old rate. This proposal would treat an APR increase made under default-rate plans in the same manner, so that there would be a 45-day delay in imposing an APR increase after the customer default, and the customer could elect to opt out of the increase altogether. These changes, which we expect will be adopted essentially as proposed, will address many of the questions that have been asked about the impact of default and risk-based pricing and cardholders' ability to respond to them.

Conclusion

Our pricing models have increased in sophistication and effectiveness. Risk-based pricing enables us to provide needed credit to a wider spectrum of consumers at prices tied to individual behaviors. While consumers at the highest risk levels pay more, risk pricing provides them with access to credit from legitimate regulated lenders. For most consumers, risk-based pricing means lower APRs, more choices, and improved credit card products.

Bank of America

Testimony of Bruce Hammonds
President, Bank of America Card Services

Before the Senate Permanent Subcommittee on Investigations

December 4, 2007

Good morning Chairman Levin, Senator Coleman and members of the subcommittee. My name is Bruce Hammonds, and I am President of Card Services for Bank of America. This is my second appearance before you. On my last appearance I submitted substantial testimony for the record, part of which focused on the topic for today. I appreciate the opportunity to expand upon my previous testimony to describe further the modern credit card industry. In my statement, I would like to stress four main points:

- Credit cards provide consumers extraordinary benefits, giving them a safe and ready form of payment for use throughout the world, with additional dividends such as cash or in kind rewards for using the card. And credit cards allow consumers to borrow money – often, interest free – at any time in amounts of their choosing, and to repay it on schedules of their choosing.

- In response to consumer demand and competition, risk-based pricing has emerged as a core element of this system, ensuring credit is available to more consumers than ever, while reducing credit costs for the least risky borrowers.

- Within a competitive marketplace, issuers employ different risk-based pricing strategies, and consumers make informed choices among issuers. Consumers are best served by such a free market. They are also protected by the highly-regulated environment in which card issuers operate.

- Customer satisfaction is paramount at Bank of America, and our pricing practices and initiatives are designed and continuously revisited with the customer view in mind. In 2007, only 6.5% of our total accounts had an increase in interest rate due to default and/or risk-based pricing, 25.9% had a decrease in interest rate and 67.6% had no change. In other words, 93.5% percent of our customers now have the same or lower rate than they did at the beginning of the year.

I will address each of these points in turn.

Credit Cards Provide Consumers Choice and Flexibility

While we continually look for ways to do more for our customers, it is important to reflect on just how far we have come. For the average consumer, credit cards have emerged as a safe and convenient alternative to cash and are accepted more places than checks. They facilitate internet shopping. The wide acceptance of cards provides instant benefits to merchants, and many small businesses use credit cards as a primary source of working capital. This activity fuels economic growth.

In the 35 years I have been in this business, I have watched innovation and competition produce ever-increasing benefits for consumers. Consumers today, for example, can use their cards to get cash from ATMs or make purchases throughout the world. And thanks to our security protections, they do so without risk of substantial loss from fraud or identity theft. Our monthly and annual statements allow consumers to track and manage their spending throughout the year. And most cards – including our recently introduced BankAmericard – provide consumers with points that can be redeemed for cash, travel or other tangible benefits.

Competition has driven innovation in pricing, as well. Over the years, credit card companies developed sophisticated modeling capabilities that use internal data combined with credit bureau information to predict future performance and price loans accordingly. Such innovations helped lenders manage risk better, but they also provided benefits to consumers. Whereas card companies previously offered one fixed rate for all borrowers, regardless of risk, and charged annual fees; today borrowers have multiple rate options, and the annual fee is all but extinct. The GAO documented these benefits last year as part of an exhaustive study.

In addition, risk-based pricing has democratized access to credit, providing more consumers with credit than ever before. Sophisticated internal credit scoring and risk management practices allow us and other banks to provide cards to customers whose credit scores previously might have disqualified them from receiving bank loans or other traditional forms of credit. Moreover, credit cards remain an important entry point for those consumers who are establishing credit for the first time.

Risk-based Pricing is Critical to the Modern Credit Card System

With all of their benefits for consumers, credit cards present corresponding challenges for card issuers. Credit cards are open-end, unsecured loans that are considerably more risky than other forms of traditional consumer loans. The unique characteristics of cards present unique risks. For example:

- Customers maintain their credit lines indefinitely, and can drawdown and repay them as they choose.

- Customers' financial health changes and some become riskier over time. Lenders retain that risk, but unlike a mortgage or an automobile, there is no security to fall back on when a borrower defaults.

- These riskier customers impose considerable credit losses on our bank. To illustrate, the total amount we lose to customer default is considerably greater – 3 times as much – than the amount we collect in late and over-limit fees.

Risk-based pricing has allowed the industry to navigate these particular challenges while still providing customers the flexibility they demand. Although competing major card lenders structure their pricing mechanisms in different ways (I'll talk more about this in a minute), we *all* engage in some form of risk-based pricing. This universal industry practice is founded on one principle on which we all agree: Customers who show increasing signs of risk should pay more than customers who do not, in order to compensate for that risk.

The fact that over one-third of our accounts – those which represent the least risk -- pay nothing at all for the benefits of their cards, is tangible evidence this principle works. Using their cards as payment tools rather than revolving debt instruments, these customers pay their balances in full each month and receive the benefits of "grace" periods. Making interest-free, unsecured loans is not a profitable business. But it illustrates risk-based pricing is better for the average consumer than prior pricing systems. In the old days, less risky consumers subsidized rates of riskier ones; there was less of a relationship between risk and price. We believe most consumers would not like to see the industry go back to that state.

Some have characterized risk-based pricing as unfair, because consumers who are re-priced are not getting the rates they originally bargained for. Taken to its extreme, this view would prohibit lenders from making any pricing changes after a credit card is issued, regardless of how a borrower's risk profile changes.

If we could identify with certainty at the outset of each card relationship the customer who would be the least risky over time and the one who would default, we could price all customers appropriately at the time we open the account. But this is not reality.

- We do an excellent job evaluating the credit risk when we open an account, but we will never be able to project into the future whether one cardholder ultimately will become riskier than any other cardholder; and

- Within a portfolio of card relationships, most of which extend for many years, the risk profiles of some customers will change, and some will become riskier.

Consequently, in order to maintain an appropriate balance of risk and reward, consistent with principles of safety and soundness, card issuers continually monitor their portfolios and re-price according to customer behavior. Before risk-based pricing, card companies simply charged all cardholders more at the outset. And credit underwriting standards were more conservative, because less information was available, and standards were less predictive and applied only at application.

As it evolved from this static, "one-size-fits-all" pricing system, the industry adopted a more dynamic approach to credit management, continuously monitoring customer behaviors and periodically re-pricing small, riskier segments of the population using highly-predictive statistical models. The result has been lower prices for the average consumer and greater credit availability. While not perfect, we believe this dynamic approach to credit management, which pinpoints risk and ensures it is priced accordingly, is fairer to the average consumer.

I must emphasize that risk-based pricing is not simply an optional feature of credit card agreements. It is the core of the modern credit card system. Attempts to interfere with the market here – to return to practices from which the industry has already evolved - will inevitably result in less credit being offered and to fewer people, at higher interest rates and with new fees.

Now, let me describe how risk-based pricing works in greater detail. With risk-based pricing, we assess each borrower's potential risk at the time we establish a new account and throughout the life of the card relationship. We charge our riskier customers more – through a higher interest rate at the beginning of the account or based on customer behavior, or as a consequence of risky behavior such as paying late. In short, while the customer retains the right to close the card account and transfer any balance at any time to a competitor that offers a better deal, we retain a corresponding right to increase the cost of credit when the customer demonstrates higher risk. Moreover, even the riskiest customer can preserve their existing rates by simply not defaulting on their loans

and rejecting proposed rate amendments. The marketplace effectively constrains our pricing, in no small part because customers can, and do, react to a pricing change by paying off or transferring their accounts at any time.

New Accounts. When a customer applies for a credit card, we assess his or her ability, stability, and demonstrated willingness to repay debts, in determining the appropriate level of credit and price. Sophisticated automated systems and experienced lending analysts make lending decisions based on the borrower's current financial situation and past credit experience. For customers with other accounts at Bank of America, we also consider their experience with us. All major credit card companies consider external or "off-us" credit experience when extending credit to new customers. Based on this information, a new customer is assigned an initial credit limit and a contract interest rate.

Periodic Portfolio Risk Reviews. We periodically review accounts of existing customers to make sure pricing and credit limits remain appropriate based on the borrowers' current circumstances. Our experience has shown that customers who exhibit certain behaviors are more likely to default on their credit card loans. Such behaviors include their performance with us – making only minimum payments for a long time or taking large cash advances —and off-us behavior – like poor payment history, taking out numerous loans, using substantially all of the credit available to them, or defaulting on loans with other lenders.

If we detect a change in these types of behaviors, a loan may be re-priced, but only after appropriate notice and opportunity to opt-out has been provided to the customer. When a loan is re-priced in this manner, the new rate applies to all outstanding balances, not just new purchases. We apply the new rate in this way because it is the whole balance that is at risk for the bank.

The customer always has a right to say "no" to such an increase. The customer will then repay any outstanding balance under the original terms, including the original interest rate, although he or she must discontinue using the card. That seems right to us.

Let me give you an illustration of how this works: A customer opened an account, and she had a FICO score of 738, which is quite strong, and a low proportion of revolving debt to total income. When we reviewed the account four years later, her FICO had dropped over sixty points to 674, which is more marginal, and she had accumulated more outstanding revolving debt, most of which was with other creditors, so that revolving debt to total income was about 80%. Moreover, she was using her account with us and making payments in a manner that suggested greater risk. In this circumstance the customer's risk profile no longer qualified her for the low rate she was originally approved for, because our risk models told us there was a significantly greater risk that she would default on this account.

Customer Defaults. Under the industry-wide practice of "default re-pricing," higher contractual interest rates will apply in the event customers make late payments or exceed their credit limits, both of which are signs of risky behavior. At Bank of America, it takes *two* such defaults in 12 months to trigger a re-pricing and, even then, we frequently use our discretion not to re-price. This is commonly referred to as "on us" re-pricing and is the most common form of re-pricing at Bank of America. We use two triggers rather than one because we believe that is far more indicative of a change in risk rather than an inadvertent mistake by the customer. Even then, only a minority of those who trigger a default actually get re-priced. And it is a very small percentage of our portfolio that is subject to default re-pricing each year.

Default rates are clearly and conspicuously disclosed in marketing materials, on credit applications and card agreements. Moreover, in 2008 we expect that all Bank of America customers will have the opportunity to benefit from a "cure." That means customers who have been subject to increased default rates will automatically be "cured" to lower rates, provided they make six consecutive on-time monthly payments and do not go overlimit.

Effect on Customer Behavior. Experience shows that many customers who are re-priced often adopt better card management practices: they make more than the minimum payments; pay on time; and stay within their credit limits by charging less following a re-pricing. So from this perspective, re-pricing practices can encourage more responsible financial behavior.

Within a Competitive Marketplace, Issuers Employ Different Pricing Strategies.

I'd like to discuss briefly the differences that exist among issuers in their methods of risk-based pricing, and the unintended consequences that would surely result from attempts to eliminate these differences and harmonize industry practices.

All issuers use risk-based pricing, for the reasons I described earlier. But as part of this highly competitive industry – which produces innovation and consumer benefits -- issuers take different approaches to risk-based pricing, based on their perceptions of customer behavior and their need to earn appropriate returns for the risks they incur, consistent with principles of safety and soundness.

Today, there are two primary forms of risk-based pricing related to customer behavior: (1) contractual defaults that may trigger automatic increases; and (2) behavioral re-pricings with notice and opt-out, for consumers who exhibit risky behaviors that substantial experience has taught us is highly predictive of future delinquency and charge off. Within this basic framework, industry competitors take a myriad of approaches.

With respect to contractual defaults, for example:

- Some issuers use "hair trigger" defaults – increasing a customer's rate based on a single default. Bank of America allows *two* defaults before it re-prices.

- Issuers define "defaults" differently. Bank of America considers only late payments and going over limit as defaults; while others include bounced checks, even if a valid payment has also been made.

- Some issuers offer a "cure" to a lower rate with good payment behavior, as Bank of America proposes to do; others do not.

- To our best knowledge, all issuers, including Bank of America, apply default re-pricing to both new and existing balances.

- And different issuers choose to default re-price their portfolios more or less aggressively. As I mentioned before, only a minority of accounts that trigger default pricing at Bank of America actually get re-priced.

With respect to behavioral re-pricing, which seems to be the current focus of this committee, industry practices also vary. Bank of America maintains a 12-month stand-off on its periodic risk reviews – no account that has been so re-priced will be subject to a periodic risk-based re-pricing for at least 12 months.

As these hearings demonstrate, issuers have different perceptions of how to appropriately address portfolio risks and the overall customer experience. *We* believe that limited default re-pricing, combined with periodic off-us re-pricing – particularly when customers have advance notice and the right to say "no" to the "off-us" re-pricing – is not only fair to customers, but consistent with safety and soundness. In our experience – and our experience is considerable – a customer bouncing a check with us one time –grounds for a default re-pricing with other banks – poses less risk than one who has fallen past due on a series of similar obligations with others. Of course, customers are the ultimate arbiters.

Therefore, we were disappointed that the Committee's questions focused mainly on off-us re-pricing. We disagree from both a customer service and safety and soundness perspective that only one method of risk-based re-pricing is best for all customers. That is why we have markets. Customers who fear they will default on other obligations but are confident they will never pay late may wish to go to our competitors; those who generally manage their credit well but occasionally forget to mail their payments may wish to come to Bank of America. And if either of us is wrong, the market will tell us that.

Of course, effective consumer choice depends upon full transparency and clarity of disclosures, so consumers make informed choices. The Federal Reserve is in the process of amending Reg Z to better facilitate such comparisons by consumers. And as I will describe later, we are working independently to improve customer understanding.

We strongly believe Congress should not eliminate consumer choice in this area, and decide for consumers which system is better. We fail to understand how that is a pro-consumer outcome.

Bank of America Puts its Customers First

Customer Experience Initiative. What we refer to as the "Customer Experience," is a top priority for Bank of America and Card Services. This priority includes careful consideration of the customer as we introduce new initiatives, continuous solicitation of customer input and responsive handling of customer complaints. Within the bank's Global Consumer organization, a team was established in the fourth quarter of 2006 to work exclusively on this issue, and four key pillars define the work of this group:

- Value - customers perceive good value for the price they pay for our products and services;
- Treatment – customers want to feel they are important to us;
- Operational Excellence – customers expect transactions to be processed accurately, efficiently and timely;
- Problem Management - customers define a problem any time we fail to deliver the expected experience for them.

This intense focus on the Customer Experience includes participation by executive leadership, and Customer Experience performance was included in all associate performance plans for full year 2007. I *personally* have spent hundreds of hours in the last year listening to our credit card customers, reading their complaint letters and have required my leadership team to do the same.

We operate our business to minimize and appropriately address customer complaints. Significant initiatives – including re-pricing decisions – include consideration of the customer impact – frequently through focus groups and pre-deployment testing. I have already described several specific practices that minimize the impact of re-pricings, including:

- our two-event trigger for default re-pricing;
- the discretion we regularly exercise NOT to re-price most customers who exceed these two triggers;
- our 12-month stand-off on the frequency of re-pricing; and
- allowing customers to "just say no" to behavioral re-pricings.

Our well-trained associates, equipped with information and tools necessary to understand our customer needs, interact with millions card customers each day. Through these interactions the vast majority of customers' questions, concerns and problems are addressed, and we have systemic processes that capture and respond to what our customers are telling us.

We educate our customers about our products and services and offer them tools to better manage their accounts, because well informed customers make the best choices.

Bank of America has simplified the language in its customer materials to ensure it is straightforward, easier to understand and provides customers with information they need to better manage their accounts.

- "Credit Cards & You," for example, provides clear information about interest rates, grace periods, how cash advances and balance transfers are treated, how payments are allocated among outstanding balances, and the importance of paying on time and staying within your credit limit.

Following customer research, Bank of America also began offering services to assist customers in managing their accounts and avoiding unintended fees and interest charges.

- Online Banking allows customers to view their accounts and know where they stand with their latest checking, savings and credit card account activity. Customers can track activity, transfer funds and pay bills any time, anywhere they have a computer with Internet access.

- E-alerts are messages sent to customers' computers, PDAs or mobile phones that they can individually customize to better manage their accounts and also help protect against identity theft.

- Account Linking helps ensure that funds are automatically transferred from a customer's savings account, line of credit, or credit card to his/her checking if payments exceed the checking account balance.

To increase awareness of these resources, Bank of America launched an online advertising campaign. The ads, which carry the theme "A Little Knowledge Is a Powerful Thing," educate consumers about tools available to provide them with more information about their accounts. Now, a new online site, "Fees and Processes Explained," provides easy-to-understand credit card and deposit fees and processes information. The site is available to the general public through www.bankofamerica.com and through various access points from Online Banking.

We remain committed to improving the customer experience. While substantial progress has been made – and we can show significant improvements in the way our customers feel about us – we remain focused on our goal of offering our credit card customers a better experience than any other bank. In our view, this competitive determination to do the right thing for consumers has provided, and will continue to provide, tangible and more dynamic benefits for consumers than static legislative solutions.

Customer Assistance. Despite our efforts to educate customers and give them the tools they need to manage their accounts, some customers experience serious financial problems – often outside of their control. We work hard to assist our customers who do experience such problems. Our associates are educated and empowered to take a holistic approach when dealing with a customer experiencing financial difficulties. If a customer can not afford to make regular minimum payments or falls behind on an account, our Customer Assistance group takes all of the customer's monthly expenses and income information into consideration in seeking to find the best solution. In many instances we modify the terms of an existing account to address the customer's current circumstance, which might include lowering the interest rate, reducing the monthly payments, eliminating interest and/or fees, or referring the customer to a debt management program. In fact, at any point in time approximately 17% of delinquent balances in the US credit card portfolio have reductions in minimum monthly payment and/or interest, in order to assist customers work through their financial difficulties.

In performing this function, we're responsive to current market conditions. As an example, we are aware of current troubles in the mortgage market some consumers are experiencing. Today as we obtain debt-to-income information from the customer, our associates ask whether the customer's delinquency is caused by an adjustable rate mortgage reset, and in the near future, we are educating our associates to proactively inquire of each customer whether a future ARM reset may impact his or her ability to make regular payments.

As part of our efforts to encourage customers with financial troubles to contact the bank for assistance, we work closely with non-profit credit counseling organizations to provide the financial, budgeting and housing counseling that will assist consumers in resolving their financial distresses. Bank of America is one of the major leaders in providing financial support to non-profit credit counseling agencies that demonstrate sound business practices and provide quality financial education and counseling. The bank has provided millions of dollars in support to these groups in recent years.

Conclusion

Taking risk into account – based on both our own experience with each customer and on the experience of other creditors – makes good financial sense, helps us to manage risk on an individual basis for each customer, and makes credit readily available at more competitive prices. As GAO has found, this evolution within the industry has greatly benefited millions of consumers. Every credit card company uses different pricing strategies based on what they think best serves their customers and what makes them the most competitive in a highly competitive market place. We strongly believe ours is what provides the most credit at the least cost to more of our customers while fairly pricing for risk.

Thank you for the opportunity to share our views today. I look forward to any questions from the panel.

Testimony of Ryan Schneider, President – Card, Capital One Financial Corporation before the United States Senate Permanent Subcommittee on Investigations

December 4, 2007

Chairman Levin, Ranking Member Coleman and Members of the Committee, good morning. My name is Ryan Schneider and I am the President of Capital One Financial Corporation's credit card business. Thank you for this opportunity to address the Subcommittee. Capital One is the 11th largest diversified financial institution in the country and the 5th largest issuer of credit cards.

Today, the credit card is among the most popular forms of payment in America. It is valued by consumers and merchants alike for its convenience, efficiency and security. As the Government Accountability Office noted, however, in their comprehensive report on this topic, the past decade has seen substantial change in the availability and pricing of credit cards. Today, many more Americans have access to credit through credit cards than at any previous time. As the GAO found, interest rates have come down significantly for the majority of consumers and most pay no annual fees. Consumers who choose to pay in full each month, as more than half of all credit card holders do, pay no interest. These benefits, however, have come at a cost – increased complexity. Thus, we support the Federal Reserve's efforts to improve consumer disclosures through their comprehensive revisions to Regulation Z.

Today, the Subcommittee is focused on the issue of repricing. A flexible pricing structure is an essential tool in the safe and sound underwriting of open-ended, unsecured credit products. Unlike mortgage, auto and other closed-end, secured loans, credit cards have balances that can fluctuate significantly on a monthly or even daily basis. Repayment patterns are neither consistent nor predictable. The ability to modify the terms of a credit card agreement to accommodate changes over time to the economy or the creditworthiness of consumers must be preserved as a matter of fiduciary responsibility. The consequences of imposing severe restrictions on the ability to reprice such loans in response to these changes could include significant reductions in the availability of credit to many and higher pricing for all, particularly to those historically underserved customers who pose a higher level of risk.

Although we want to take this opportunity to point out that even the most well intended of policy initiatives can have unintended consequences, Capital One shares many of the concerns expressed by you and other members of this Subcommittee. We applaud your efforts to continue discussion on what we believe to be the most challenging practice in the industry today – aggressive repricing without customer choice.

Capital One testified before Chairman Dodd's Committee and Chairwoman Maloney's Subcommittee earlier this year in support of the Federal Reserve's

proposal to enhance the consumer protections offered by Regulation Z. We believe that requiring card issuers to notify consumers 45 days prior to any repricing is a positive step forward. We also support the Federal Reserve's effort to expand this notice requirement to default or penalty-based repricing.

Capital One recommends, however, that the Federal Reserve go one step further by permitting customers to reject the new interest rate in exchange for stopping the use of their card, and paying off their existing balance at their previous rate. This right to reject the new terms is already available to most customers through change-in-terms or notice based repricing; however, it is not offered to customers who are repriced as a result of a default on their account, or in some cases, default on another account with the same financial institution.

Well in advance of the Federal Reserve's finalization of its proposed revisions to Regulation Z, Capital One has already taken several meaningful steps on its own to address concerns regarding repricing.

First, we've adopted a single, simple default repricing policy for all of our customers that provides them with a warning before we will consider taking any action. Capital One will <u>not</u> consider default repricing any customer <u>unless</u> they pay 3 or more days late <u>twice</u> in a 12 month period. After their first infraction, customers are provided with a prominent statement on their monthly bill alerting them that they may be repriced if they pay late again. Even after the second late

payment, the decision to reprice someone is not automatic. For many customers, Capital One chooses not to do so. If we do reprice someone, we will let them earn back their prior rate by paying us on time for twelve consecutive months. This process is automatic. To be clear, Capital One will not reprice customers if they go over their limit or bounce a check.

Second, Capital One does not practice any form of "universal default." This has been our long-standing policy. We will not reprice a customer if they pay late on another account with us, any other lender, or because their credit score goes down for any reason.

Third, when economic conditions require us to make changes to the terms of our customer's accounts, we have already chosen to adopt the Federal Reserve's proposed 45-day advance notice period. For many years, our practice in this regard has been to offer a minimum of 30 days, twice the 15 days currently required under Regulation Z. Despite the fact that revisions to Regulation Z have not been finalized, we believe that this longer notice period strikes the right balance for us and our customers.

Fourth, we ensure that our customers have meaningful choice and complete transparency regarding any changes to their accounts. To that end, we offer our customers the ability to reject their new terms, cease use of their accounts and pay off their balances at their previous rate over time. We also are very proud of

the industry-leading clarity and prominence of our notice, a sample of which is included with our written testimony.

Fifth and finally, as a matter of long-standing practice, we will not reprice customers via a change in terms for at least three years from the time they open their account or from the time of any prior change in terms repricing.

In conclusion, while we believe that the Federal Reserve's proposal represents a positive step forward for consumers and our industry, we do not view it as a substitute for continuously adapting our practices and policies to keep up with consumer demand, the rigors of competition and the standards of sound banking. Capital One has over 30 million credit card customers, the vast majority of whom have a good experience with our product. When they don't, we regard that as a failure and seek to find out why. In a highly competitive market, we must continuously strive to improve our products and services if we are to attract and retain the best customers.

Thank you and I look forward to answering any questions you may have.

200101

Your account is changing. This change will start with your April 2007 billing cycle:*

Annual Percentage Rate (APR)

In light of rising interest rates over the past few years and the rate currently applied to your account balance, the APR on your account is about to increase.*

Your new rate for purchase and cash advance balances will be as follows:

- 12.9 % ANNUAL PERCENTAGE RATE (0.03534% daily periodic rate).

What's Not Changing

Although these terms are changing, your card still features all of your current benefits including $0 Fraud Liability and online account servicing. And if you are currently enrolled in a rewards program, you will continue to earn rewards on all of your eligible purchases. We truly value your business and look forward to serving you for years to come.

200101

see reverse for more information, including how to decline this change to your account.

Capital One

Please retain for your records.

if you decide not to accept these terms

You can choose to decline this change and cancel your account.

To decline these changes, call our automated system at 1-800-214-5032 by midnight EST, March 30, 2007. Please have your account information available.

If you decline, starting March 31, 2007, you will:

- Not be able to use your card
- Have to cancel any scheduled payments you have set up for automatic billing
- Not be able to redeem your rewards, if you are currently enrolled in a rewards program

If you decline, you will be able to pay down your account at your existing terms. We will close your account after the balance you owe is $0 and we confirm that no new charges have posted to your account.

Important Information

- Your April 2007 billing cycle is the first billing cycle with a periodic statement closing date on or after April 1, 2007.
- This communication is also a notice of action taken under the Equal Credit Opportunity Act. As such, we are required by law to provide the following statement:

Equal Credit Opportunity Act

The federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants:

- on the basis of race, color, religion, national origin, sex, marital status, age (provided that the applicant has the capacity to enter into a binding contract);
- because all or part of the applicant's income is derived from any public assistance program; or
- because the applicant has in good faith exercised any right under the Consumer Credit Protection Act.

The federal agency that administers compliance with the law concerning Capital One Bank is:

The Federal Reserve Bank of Richmond
701 East Byrd Street
Richmond, Virginia 23219

These changes amend your Customer Agreement. All other account terms and conditions remain the same.

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Capital One Financial
Responses to Questions Posed by the
Senate Permanent Subcommittee on Investigations
in its Letter of November 20, 2007

Question 1: Practices relating to interest rate increases

Under our penalty repricing policy, customers' accounts may be repriced if payments are three or more days past due, twice in a twelve-month period. Our current penalty rate is Prime+19.9%. Customers are often excluded from penalty repricing for a variety of reasons.

All customers are eligible to earn back their original purchase rate by paying on time for twelve consecutive months. This process is automatic. Customers are informed of this opportunity in a message on the periodic statement at the time penalty repricing is effected.

If a customer pays three or more days late during the term of a promotional or introductory rate, the promotional or introductory rate may be terminated, and the outstanding balance will accrue interest at the account's normal purchase rate. Again, customers are often excluded from penalty termination of a promotional or introductory rate for a variety of reasons.

Beyond the penalty repricing described above, it has not been Capital One's practice to reprice customers as a function of their evolving credit profile, practices that are often referred to in the industry as risk-based repricing or adverse-action repricing.

In keeping with the open-ended nature of credit card loans, Capital One does periodically engage in the repricing of broad segments of accounts as a means of maintaining market and economic competitiveness. This is further described in our response to Question 2.

Question 2: Repricing of accounts other than for failure to comply with the account terms

Change-in-terms repricing refers to the practice of repricing segments of the customer account portfolio in response to economic or market conditions, rather than in response to individual customer behavior.

There is no fixed trigger, schedule or frequency for initiating change-in-terms repricing. The details of a change-in-terms repricing, including affected customer segments and the rates to which the accounts will be repriced, are not pre-defined. These details are determined based on a variety of factors, including prevailing economic conditions and market competition.

Despite a sustained period of rising market interest rates, Capital One has employed change-in-terms repricing very sparingly, with only a small proportion of customer accounts being affected in 2007 and even fewer for many years prior to 2007.

As a matter of practice, we do not effect change-in-terms repricing during the first three years of a customer account relationship.

As a critical component of change-in-terms repricing, we now provide our customers with at least 45 days advance notice of the change along with the opportunity to reject the change. Previously, we provided at least 30 days. Both notice periods are well in excess of the Regulation Z's current 15 day notice requirement. If a customer chooses to reject the change, the customer may keep the existing rate but may no longer use the account for charges or further borrowing.

Our February and July 2007 change-in-terms repricing followed the policies and practices outlined above.

Question 3: Repricing closed accounts

We do not effect change-in-terms repricing on closed accounts.

Question 4: Applying changed interest rates to outstanding balances

Interest rate changes are applied to customers' existing loan balances at the time the new rate is effected. The new rate is applied to loan balances from that point forward.

Question 5: Policies on interest rates

Interest rate changes are determined as a function of market conditions. There is no explicit policy governing the amount of interest rate increases or reductions.

Question 6: Notice before interest rate increases/opt out procedures

We have always provided customers' at least 30 days to reject a change-in-terms repricing. In our July change in terms, we provided 45 days. These notice periods are well in excess of Regulation Z's 15 day requirement.

Our change in terms notice is presented in a clear format with type that is easy to read. The notice provides a prominent disclosure for customers who "decide not to accept these terms." In that disclosure, a toll free number is provided for customers to opt out of the rate increase and pay off their balance at their existing rate.

Capital One Financial Corporation
1680 Capital One Drive
McLean, VA 22102

October 11, 2007

Ms. Jennifer J. Johnson
Secretary
Board of Governors
Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
regs.comments@federalreserve.gov

Re: Proposed Revisions to Regulation Z, Docket No. R-1286

Dear Ms. Johnson:

Capital One Financial Corporation ("Capital One") is pleased to submit this comment on the Board's proposed revisions to Regulation Z.[1]

Capital One Financial Corporation is a financial holding company whose principal subsidiaries, Capital One, N.A., Capital One Bank, and Capital One Auto Finance, Inc., offer a broad spectrum of financial products and services to consumers, small businesses, and commercial clients. As of June 30, 2007, Capital One's subsidiaries collectively had $85.7 billion in deposits and $144 billion in managed loans outstanding, and operated more than 720 retail bank branches. Among its product lines, Capital One is one of the largest issuers of Visa and MasterCard credit cards in the world. Capital One is a Fortune 500 company and is included in the S&P 100 Index.

The Board's proposal is an ambitious and comprehensive revision of the Regulation Z provisions on open-end lending, which Capital One endorses as a major positive advance in open-end credit disclosure. The Board's proposed revisions have many strengths. In particular:

- They bring the regulatory disclosure regime in line with industry developments over recent decades.

[1] 72 Fed. Reg. 32948 (June 14, 2007).

- They focus on the clarity, utility, and relevance of disclosures.
- Perhaps most importantly, they are thoroughly based in actual consumer research, as a necessary guide to determining what consumers need and will use.

Although we have several suggestions for changing aspects of the Board's proposal, our suggestions do not detract from our overall view that the proposed revisions are an extremely positive advance.

1. Repricing Credit Card Accounts

a. Customers should have the right to reject unilateral increases in interest rates, including penalty repricing.

The most significant and controversial element in the Board's proposed revisions to Regulation Z is its proposal that credit card issuers be required to provide at least 45 days' notice to customers before implementing a "penalty repricing" – raising the customer's interest rate because of the customer's having broken one of the rules of the account, such as by paying late.[2] Under the current regulatory regime, if the credit card issuer discloses to the customer the default-repricing triggers at the inception of the account, it need not give notice prior to implementing the penalty interest rate. Consequently, with some credit card issuers, the only notice that the customer receives of penalty repricing is that the next periodic statement they receive shows a higher interest rate.

We support the Board's initiative to give customers improved notice. Further, we support the Board's proposal that the notice be sent 45 days in advance of repricing to give customers an opportunity to shop for alternative credit. We recognize that that proposal is likely to be controversial with lenders who feel that the existing regulatory regime works effectively, and that the 45-day advance notice will cost substantial lost revenue as a result of the delay in implementing the penalty interest rate.

However, we believe that the Board should go significantly further: The Board should permit customers to reject the new interest rate, cease using the credit card, and pay off the existing balance at the previously applicable rate. This is a right that most credit card issuers give customers with respect to broad-based or change-in-terms repricing subject to Regulation Z § 226.9(c) (currently requiring 15 days' advance notice); we think that customers should have the same right with respect to default repricing. The best credit card rates and terms are often directly marketed, and are not available to consumers who request the credit card on their own initiative. This is

[2] Proposed Regulation Z § 226.9(g), 72 Fed. Reg. at 33012.

Some credit card issuers also engage in penalty repricing if the customer has broken an account rule on another account, or on an account with some other creditor, or if the customer's creditworthiness as reflected in a credit bureau report has declined. This practice is sometimes referred to as "universal default."

especially true of favorable balance-transfer interest rates. While the 45-day period may seem sufficient for shopping purposes, there is no guarantee that a customer will receive a competitive unsolicited balance-transfer offer during that period. As Comptroller of the Currency John Dugan remarked in a recent speech, "what if no other card company would be willing to roll over the balance at a lower rate? ... The practical reality is that the consumer would get stuck paying the higher rate on the full amount of his or her outstanding balance, because there would be no realistic alternative."[3] For this reason, to empower consumers as the Board seeks to do, the Board should also give consumers the right to reject the new interest rate and pay down the existing balance on the previous terms.

We note that the Comptroller has proposed that consumers be given exactly that right, but that it not extend to instances in which the consumer is repriced because of a rule infraction on the account that is repriced – *i.e.,* that the right be limited to instances of "universal default."[4] We endorse the Comptroller's initiative and vision in moving beyond disclosure to the conclusion that a substantive right to reject the new rate is necessary. But we think that that right should apply to all forms of repricing, including all default or penalty repricing, regardless of whether the grounds for repricing are characterized as "universal default." This policy would eliminate the need to define the concept of "universal default" and would render unnecessary the debates over whether this or that practice falls within such a definition.

We appreciate that penalty repricing is an important risk-management tool for credit card lenders. We use that tool ourselves, with significant constraints and in limited circumstances.[5] But we think that the value of penalty repricing as a risk-management tool is outweighed by a number of other considerations, *and we further believe that these considerations apply to repricing based on infractions on the account being repriced, as well as to instances of "universal default":*

- Customers may engage in major transactions at one interest rate, and then find, after penalty repricing, that they must pay off the resulting balances at a much higher rate. Customers should be given a choice as to whether to accept the new rate or cease using the card. This choice provides card issuers with an adequate means to address any increased risk created by the customer's actions while also ensuring that customers gain certainty and are provided with choice and control.

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[3] Remarks by Comptroller of the Currency John C. Dugan to the Financial Services Roundtable, September 27, 2007, at pp. 7-8.

[4] *Id.* at p. 8.

[5] We believe that our repricing policy is generous to customers by current industry standards. At Capital One, a customer cannot be repriced on an account unless the customer pays late on that account by at least three days, two times in one 12-month period; and the customer receives clear notice on the occasion of the first late payment that a second late payment may trigger repricing. The customer who is repriced automatically reverts to the applicable non-penalty rate after paying on time for another 12 months.

- The current penalty repricing regime may be an invitation to some credit card lenders not to engage in rigorous underwriting and interest-rate assignment at account inception, expecting that penalty repricing later on can mitigate the effects of unsound credit decisions.

- Some credit card lenders could be tempted, by the availability of penalty repricing, to market credit cards at low interest rates (particularly, at low introductory rates for long introductory periods) that the lenders know are uneconomic, setting hair-trigger penalty terms so that a substantial proportion of the customers will be repriced to make the portfolio profitable.

For these reasons, we think that a fair and balanced credit card regulatory regime requires that customers be enabled to reject interest rate increases, whether penalty increases or change-in-terms repricing, and pay down the existing balance over time.

The Board has sufficient legal authority to require that customers be given the opportunity to reject interest rate increases. By analogy, although the Truth in Lending Act does not specifically authorize the 45-day notice for interest rate changes that the Board proposes, a substantial advance notice is necessary to make the content of the notice meaningfully usable by customers, and therefore the requirement is within the Board's overall authority under the Act to prescribe effective lending disclosures.[6] For the same reason – to make the disclosure meaningfully actionable by customers – the Board has sufficient authority under the Act to require that customers be given the right to reject the interest rate increases, as long as they make no further transactions on the account and pay it down over time.

In addition, the Board could regard the right of customers to reject interest rate increases as necessary to prevent unfair or deceptive practices, and therefore authorized under both the Truth in Lending Act and the Federal Trade Commission Act.[7]

b. The required repricing notice should include the reason the customer is being repriced.

The advance repricing notice that the Board has proposed includes several items of useful information, but one item that it does not include is the reason that the customer

[6] TILA § 105(a), 15 U.S.C. § 1604(a).

[7] We emphasize that penalty repricing is not inherently an unfair or deceptive practice. On the contrary, it is a legitimate risk-management tool. It is a tool, however, that could be misused, as we have described above. Both the Truth in Lending Act and the Federal Trade Commission Act provide sufficient authority for the Board to promulgate rules sufficient to prevent those abuses from occurring. The Truth in Lending Act authorizes the Board to "prescribe regulations to carry out the purposes of [the Act]," *id.*, and those purposes include "to protect the consumer against inaccurate and unfair credit billing and credit card practices," TILA § 102(a), 15 U.S.C. § 1601(a). And the Board's rulemaking authority under the Federal Trade Commission Act encompasses "requirements prescribed for the purpose of preventing" unfair or deceptive acts or practices, FTC Act § 18(f)(1), 15 U.S.C. § 57a(f)(1).

is being repriced. We submit that that piece of information is also useful to customers and should be included – especially, as the Board points out, "in light of the relatively low contractual threshold for rate increases based on consumer delinquency, default or as a penalty," so that customers may not expect the rate increase.[8] Illustrating the significance and utility of such a disclosure, one of the items that the Board does propose to require in the Notice is "the circumstances under which the delinquency or default rate or penalty rate ... will cease to apply to the consumer's account ..."[9] If the circumstance for restoring the non-penalty rate is to pay on time for a year, it would be relevant for the customer to know that the event triggering the repricing was late payment. If the triggering event was delinquency on some other credit account with a different lender, it would be important for the customer to know that, too. Such a disclosure should not be difficult to draft, because the lender will already have included a statement of repricing triggers in the Schumer Box and can recite the same disclosure (or relevant part of the disclosure) in the repricing notice.[10]

c. To facilitate the ability of customers to avoid repricing, the Board should encourage a regime in which the customer is not repriced until there is a second infraction, after receiving a warning upon a first infraction.

Like some other credit card issuers, Capital One will not reprice customers based on a single account infraction. At least two infractions are necessary.[11] A customer who pays late receives a warning in the next periodic statement, in the hope that the customer will be stimulated by knowledge of the imminent risk of repricing to pay on time thereafter and not be repriced at all. We believe that this is a superior, and more customer-friendly, regime than a regime in which the customer, though receiving advance notice of repricing, cannot avoid the repricing other than by paying off the entire balance or finding another lending vehicle to transfer it to.[12]

The Board should encourage issuers to adopt such a multiple-infraction regime, by allowing the 45-day notice period of proposed section 226.9(g) to begin to run on the occasion of the first infraction, rather than the second. Under the rule as proposed, the notice could not be given at that time, because it would necessarily be contingent, and could not state a date on which the new, higher interest rate would go into effect. Therefore, under the rule as proposed, the notice period would have to begin on the

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[8] 72 Fed. Reg. at 33012.

[9] Proposed Regulation Z § 226.9(g)(3)(i)(C), 72 Fed. Reg. at 33058.

[10] Proposed Regulation Z § 226.5a(b)(1)(iv), § 226.6(b)(4)(ii)(c), 72 Fed. Reg. at 33046, 33050.

[11] Specifically, as described above, a customer cannot be repriced on an account unless the customer pays late on that account by at least three days, two times in one 12-month period. The customer automatically reverts to the applicable non-penalty rate after paying on time for another 12 months.

[12] Of course, giving the customer the ability to reject the repricing, close the account, and pay down the balance on the previous terms, as we advocate above, would substantially mitigate this situation.

occasion of the second infraction. The advance notice, however, entails significant cost to the lender in foregone interest revenue which lenders may not be willing to absorb in the case of customers who have already indicated potentially heightened risk with the first infraction.[13] Hence the rule as proposed might cause issuers who currently have a dual-infraction repricing regime to move to a single-infraction regime, a move that we submit would be detrimental to consumers. The Board should avoid that result by allowing the 45-day notice period to begin to run when notice of the first infraction is sent.[14]

2. Schumer Boxes

The Board's proposed revisions to the Schumer Box, including requiring it to be delivered at account opening as well as at the marketing stage, represent a major improvement in a disclosure tool that was already, we believe, one of the most effective and most used by consumers in the lending world. We applaud the Board for its rigorous reliance on consumer research in determining what to include in the Schumer Box, what to leave out, and how to convey the information in the box. Though we have a number of suggestions for change, they are offered in the spirit of improving a disclosure vehicle that we believe is already, as proposed by the Board, outstanding.

a. The Schumer Box should include the credit line or range.

We submit that the Schumer Box should include the amount of credit that the consumer will obtain. Credit line is a key fact of which consumers should be informed. When consumers are shopping for credit, they understandably want to know how much they are going to get.

The Board has rejected this suggestion, on the ground that the credit line depends on the consumer's creditworthiness and is not fully determined until the application has been submitted.[15] The Board is quite correct in its statement of how credit lines are assigned. We believe that the subject can be appropriately addressed by disclosing a range of credit lines in the solicitation-stage Schumer Box (credit card issuers do generally have a range in mind when marketing a credit card, and the range is often

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[13] Because the current notice of rate change appears in the periodic statement sent after the cycle in which the new rate is assessed, while the new advance notice must be given 45 days in advance, the actual period of foregone interest is not 45 days but closer to 90.

[14] Our recommendation on timing of the notice in a dual-infraction repricing regime is made in the context of the Board's rule as proposed, with an advance-notice requirement but without a requirement that the customer be allowed to reject the repricing, close the account, and pay down the outstanding balance on the former terms. Determining when the notice period should begin to run in a multi-infraction regime, if the Board adopts our recommendation that customers be given that choice, would require further consideration.

[15] 72 Fed. Reg. at 32984. The Board also states that, in consumer research, consumers were not confused by the common practice of marketing an "up to" credit limit, understanding that that amount was a maximum amount. *Id.* However, that consideration goes to the content of the disclosure, rather than to whether there should be a disclosure.

disclosed in the marketing materials, although the maximum and minimum are not necessarily to be found in the same place, or with equal prominence), and to disclose the actual credit line assigned in the account-opening Schumer box. This disclosure regime would closely parallel that proposed by the Board for APRs, in cases in which a range of APRs is marketed, and the exact APR is determined at the application stage.[16]

Including credit line in the Schumer Box in the way we suggest would require an exception to the Board's proposed rule that a change to any term disclosed in the account-opening Schumer Box requires a 45-day advance notice.[17] As the Board has observed, lowering a customer's credit line – sometimes immediately, without advance notice – is an essential risk-management tool.[18] If the effect of including credit line in the Schumer Box were to prevent issuers from using that tool, then certainly credit line should not be included in the Schumer Box. However, we think the better approach for the benefit of consumers is to include the term in the Schumer Box, including in the account-opening Schumer Box, but exempt it from the advance-notice requirement for changes in terms.

b. The solicitation-stage Schumer Box should include foreign transaction fees.

The Board proposes to include foreign transaction fees in the account-opening Schumer Box[19] but not in the solicitation-stage Schumer box. The Board states that, in consumer research, "participants did not tend to mention foreign transaction fees as important fees they use to shop," and concludes that the fee is not important for a significant number of consumers.[20] We suggest that the Board revisit that conclusion. The foreign transaction fee is relevant to any consumer who travels in other countries, and the large amount of press attention that the issue has received suggests that the presence or absence of the fee is of interest to a significant number of consumers, and specifically that the ability to choose a credit card based on the presence of the fee is

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[16] Proposed Regulation Z § 226.5a(b)(1)(v), 72 Fed. Reg. at 33046 (solicitation stage), § 226.6(b)(4)(ii), 72 Fed. Reg. at 33050 (account opening).

There are cases in which the upper end of the credit range is sufficiently high that the lender would expect few applicants to qualify for it. For example, credit cards are sometimes offered with a credit line as high as $50,000 or even $100,000. In such cases, the lender might be reluctant to state the upper end of the range, so as to avoid unduly encouraging consumers to expect a credit line that they probably will not receive. We believe that such cases can be accommodated by allowing sufficient flexibility in the Schumer box disclosure, such as, "credit line: $5000 or more," or "credit line: $5000 to $15,000 or more."

[17] Proposed Regulation Z § 226.9(c)(2)(iii)(A), 72 Fed. Reg. at 33056.

[18] 72 Fed. Reg. at 33012.

[19] Proposed Regulation Z, § 226.6(b)(4)(iii)(B), 72 Fed. Reg. at 33050.

[20] 72 Fed. Reg. at 32981.

important.[21] In order to make that choice knowledgably, consumers need to be able to see the presence and amount of the foreign transaction fee in the solicitation-stage Schumer Box.

c. The Board should stop using the term "grace period."

Although Congress, in the Truth in Lending Act, mandated the use of the term "grace period,"[22] this is one case where Congress's choice was unfortunate. Research

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[21] For a sample of such press reports just in the last two years, *see, e.g., The Best Way To Get Cash While Overseas,* U.S. News & World Report, Sept. 5, 2007; *Fall foreign currency report,* Smarter Travel, Sept. 5, 2007; *Best Credit Cards for Summer Travel,* SmartMoney – Online, Aug. 23, 2007; *Before you go away on vacation, heed these banking tips,* MarketWatch.com, Aug. 6, 2007; *Getting your cash abroad,* Chicago Daily Herald, July 29, 2007; *Converting dollars abroad,* CNNMoney.com, July 17, 2007; *Savvy travelers know how to see Europe on the cheap,* The Modesto Bee, July 15, 2007; *Travel Updates,* Seattle Times, July 15, 2007; *Plastic Rules When Traveling Abroad,* Kiplinger.com, July 13, 2007; *Spending dollars abroad? Beware of conversion fees,* Courier Post – online; *The best bang for your buck abroad,* Fortune, July 6, 2007; *Trim travel costs by reducing currency conversion fees,* Times Union, July 2, 2007; *How to Pay in Euros,* Money, July 1, 2007; *Exchange rate can cast cloud on foreign trip;* Indianapolis Star – online; *The Best Credit Cards for Summer Travel,* SmartMoney – online; *Experts list best deals in cards,* Richmond Times-Dispatch, June 17, 2007; *Money Moves for Summer Travelers,* Investors.com, June 15, 2007; *Before going abroad, check out ways to reduce currency-exchange fees,* USA Today, June 5, 2007; *Going overseas? These cards have lowest fees on foreign purchases,* MarketWatch.com, May 28, 2007; *Best cards for foreign travel;* Bankrate.com, May 14, 2007; *Euronomics,* Wichita Eagle, May 13, 2007; *The Price is Right,* Washington Post, March 30, 2007; *Watch out for hidden credit-card fees: They're easy to miss,* Belleville News-Democrat, March 18, 2007; *How to cut travel costs and still enjoy yourself,* Seattle Times, March 16, 2007; *Hidden Credit-Card Fees,* Kiplinger.com, Feb. 22, 2007; *Money Matters on the Road,* Independent Traveler, Feb. 8, 2007; *Beware of hidden service fees,* Miami Herald – online; *35 most outrageous fees (and how to avoid them),* Money, Jan. 1, 2007; *Taking care of your child overseas,* CNNMoney.com, Sept. 7, 2006; *Abroad, credit cards are your best bet,* Miami Herald, July 27, 2006; *Choosing the right card to travel,* CNNMoney.com, July 26, 2007; *Vacationers, don't get fleeced by high rates,* Erie Times-News, July 21, 2006; *Well spent: Read the fine print before using credit card abroad,* Seattle Post-Intelligence, July 12, 2006; *Wishing for more currency abroad? ATM card holds the key,* Denver Post, July 9, 2006; *Getting the best exchange rate,* Helena Independent Record, June 25, 2006; *High exchange fees can make foreign travelers bid adieu to their cash,* San Francisco Chronicle, June 25, 2006; *How to Get the Best Exchange Rate (and Avoid Fees),* New York Times, June 24, 2006; *Card currency-conversion costs,* Bankrate.com, June 8, 2006; *When abroad, be careful how you pay,* US News & World Report, June 2, 2006; *Fees Make Using Credit Cards Abroad More Expensive,* Newhouse News Service, May 31, 2006; *Beware credit-card fees,* The Daily Herald, Jay 7, 2006; *What are these extra card fees, eh?,* Buffalo News, May 7, 2006; *How to make your frequent flier miles go much farther,* Seattle Times, April 27, 2006; *Fees for using 'plastic' overseas are adding up,* Rutland Herald, April 9, 2006; *Tom Parsons: Credit-card user fees can add up,* Dallas Morning News; April 1, 2006; *A Traveling Tip for Credit Card Users,* Washington Post, March 31, 2006; *Ways To Minimize Cost Of Conversion,* Pittsburgh Post-Gazette, March 19, 2006; *Overseas, the Shock of the Surcharge,* New York Times, Feb. 18, 2006; *Minimize Charge-Card Fees On Trips Abroad,* Wall Street Journal, Feb. 5, 2006; *Frequent Flier Mile Hassles,* Washington Post, Jan. 26, 2006; *Foreign exchange 101, part two: Fees for credit card use,* SmarterTraveler.com, Jan 12, 2006; *Avoid exchange-rate gouge with right card,* Kansas City Star, Nov. 6, 2005; *Look out for fees on foreign charges,* San Jose Mercury News, Nov. 6, 2005.

Capital One does not charge a fee on foreign transactions or transactions in a foreign currency.

[22] TILA § 122(c)(2)(C).

conducted by the Board, by the GAO, and by Capital One unanimously demonstrates that the term is confusing as a descriptor of the interest-free period between purchase and due date for customers who pay their balances in full. Though the term is mandated by Congress, this is a case where the Board's exception authority[23] can be used to choose something else.

The Board notes that consumers are capable of interpreting the term in at least two ways that are wrong in this context:

- Some consumers thought the term meant "the time after the payment due date that an issuer may give the consumer to pay the bill without charging a late-payment fee."[24]

- Some consumers "incorrectly indicated that the grace period was the period of time promotional interest rates applied."[25]

Clearly a better term needs to be found. In our comment letter in response to the Board's Advance Notice of Proposed Rulemaking, we suggested use of the term "interest-free period." The Macro researchers found that that term was no easier to comprehend,[26] and we would be delighted if a more successful term were developed. We note, however, that the term "interest-free period" appears to have been preferred both by the consumers who participated in our research and by those who participated in Macro's research as being more descriptive,[27] and that it at least does not have the multiple *wrong* meanings that "grace period" demonstrably has.

In fact, we surmise from our own research that use of the term "grace period" may impair consumers' understanding of the term's definition even when that definition is spelled out for them. In our research, consumers shown the Board's proposed definition, in conjunction with the term "grace period," persisted in their belief that the definition referred to some period of time after the due date, even though the definition does not say any such thing. Consumers were more successful in understanding the concept when we made *two* changes: First, using the term "interest-free period" and second, reorganizing the definition to say: "Your due date is [at least] 25 days after your bill is totaled each

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[23] TILA § 105(a).

[24] 72 Fed. Reg. at 32981; Macro International Inc., "Design and Testing of Effective Truth in Lending Disclosures," May 16, 2007 (the "Macro Report"), p. vi.

[25] 72 Fed. Reg. at 32981, citing GAO Report on Credit Card Rates and Fees, at p. 50. This incorrect interpretation was also found by the Macro researchers: "[S]ome were confused by text that warned the grace period would be lost if the card holder did not pay the balance in full in each period. Several participants incorrectly stated that this meant they would lose their introductory APR if they did not make payments on time." Macro Report, p. 40.

[26] Macro Report, p. 31.

[27] *Id.*

month. If you don't pay your bill in full by your due date, you will be charged interest on the remaining balance."[28]

We suggest that the Board consider options like these as it continues to develop the Schumer Box disclosures, and include them in further consumer research if the Board conducts such further research.

d. The proposed payment allocation disclosure can be made clearer and more comprehensive.

We support the Board's proposal to include a disclosure about payment allocation in the revised Schumer Box. We think the subject is important enough that a disclosure belongs there.[29] But we think that the disclosure proposed by the Board can be improved in two respects.

- Our consumer research suggests that the content of the Board's proposed disclosure is not clear.
- As proposed by the Board, the disclosure would not be made in all the circumstances in which it would be relevant.

In both respects, we believe that disclosure practice currently common in the industry is actually superior to that proposed by the Board, with the critical difference that current disclosures are not included in the Schumer Box, because the current rules do not permit it.

First, with respect to content, the proposed disclosure combines two concepts in a single block of opaque text:

- The effect of payment allocation on a transferred low-rate balance.
- The fact that there is no interest-free period on purchases while a transferred balance is outstanding.

The consumer research that we conducted suggests that comprehension of these concepts is better if they are separately split out, so that consumers may focus on each individually. In our consumer research, we obtained better results for a model Schumer Box in which the subject of payment allocation was handled in a separate box, marked "payment allocation," containing the following text:

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[28] We used this statement to reflect the 25-day interest-free period established in Virginia law, Virginia Code § 6.1-330.63(A).

[29] In our comments on the Board's Advance Notice of Proposed Rulemaking, we recommended that such a disclosure be included in the "Fact Sheet" that we proposed as a revised version of the Schumer Box. Capital One Letter of March 28, 2005, p. 6.

"Each payment you make will be applied in the following order:
1) Finance charges and fees.
2) Transactions (balance transfers; purchases; cash advances if applicable) in order of lowest to highest APR."

Then, in the box dealing with the interest-free period, we included a disclosure: "Please note that if you transfer a balance, you will not be eligible for the [interest-free period.]"

We suggest that the Board consider disclosures of this type in its future consumer research.

Second, the Board's proposed disclosure would be made only in cases of introductory-rate balance transfer offers. The payment-allocation method that an issuer uses, however, makes a financial difference whenever there is a possibility of different interest rates. That possibility exists with most modern credit card accounts, regardless of the presence of an introductory-rate balance transfer or other introductory rate, because most credit card accounts apply a different and higher interest rate to cash advances than to purchases. Although the Board obviously believed that introductory-rate balance transfers are the situation in which the payment allocation method has the most significant impact, the effect of payment allocation methodology can be significant in other cases too. The Board is probably aware that payment allocation methodology is one of the credit card subjects currently receiving attention in Congress. In those discussions, the leading anecdote that is used to illustrate the issue is not a balance transfer or introductory-rate incident, but rather an incident involving a cash advance.

In addition, the disclosure should be required not only when a new account is solicited and opened, but also when a balance-transfer offer is marketed to an existing account. Payment allocation would affect the value of such an offer in the same ways that concern the Board with respect to new-account offers.

In conclusion, we believe that the best payment allocation disclosure is one in which the concept of payment allocation is separated from the concept of the interest-free period and the impact of balance transfers on that concept, and in which the payment allocation disclosure is given for any account or offer where the possibility of differential interest rates exists (which would be nearly every account).

e. The Board should provide for continuing customer access to the account-opening Schumer Box.

In its Advance Notice of Proposed Rulemaking, the Board asked how to achieve continuing customer access to the account-opening disclosures.[30] We thought that was a desirable objective, and we suggested ways to achieve it.[31]

In its current Notice, the Board has not proposed a way to make the account-opening disclosures available on a continuing basis. The Board has proposed various requirements for communicating changes in the terms of the account, such as the change in terms notice, [32] the default repricing notice,[33] and notices of changes in fees that are not included in the account-opening Schumer Box,[34] and of course, various terms are included on every periodic statement. All of those required communications are good ideas, but they do not fully meet the need for continuing access to a comprehensive set of terms of the customer's account. As the Board notes in the context of repricing, "the account-opening disclosures may be provided to the consumer too far in advance for the consumer to recall the circumstances ... In addition, the consumer may not have retained a copy of the account-opening disclosures and may not be able to effectively link the information disclosed at account-opening to the current repricing ..."[35] For the same reasons, consumers may not have ready access to other terms of their accounts that may also be important.

To meet this need, we propose that the account-opening Schumer Box (appropriately updated to reflect any subsequent changes) be made available to customers on-line. We believe that this can be achieved without undue burden. Those customers who do not have on-line access should be able to request a hard copy by mail.

3. Periodic Statements

a. The Board should provide flexibility to adjust the disclosure of risk of repricing for late payment to make it accurate for customers who are being or have been repriced.

We agree with the Board that the late-payment disclosure mandated by the Bankruptcy Reform Act should not be limited to risk of a late fee, but should include risk

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[30] 69 Fed. Reg. 70925, 70929 (December 4, 2004).

[31] See our letter of March 28, 2005, at p. 8.

[32] Proposed Regulation Z § 226.9(c), 72 Fed. Reg. at 33056.

[33] *Id.* § 226.9(g), 72 Fed. Reg. at 33058..

[34] *Id.* § 226.9(c)(2)(ii), 72 Fed. Reg. at 33056.

[35] 72 Fed. Reg. at 33012.

of repricing as well, for the reason that the Board stated: The effect of repricing is no less significant, and may be much more so, than the late fees.[36] However, the disclosure that the Board prescribes may not be correct for a customer who is actually being or has been repriced. The problem is illustrated by the Board's own sample G-18(H),[37] which includes the warning, "If we do not receive your minimum payment by the date listed above, ... your APRs may be increased up to the penalty APR of 28.99%," but also includes, before the transactions, the disclosure "You have triggered the penalty APR of 28.99%. Effective 5/10/07, we will apply the penalty rate to all balances on this account ..." These disclosures are inconsistent and therefore confusing. The late-payment warning should state that the repricing has already been triggered. Or, possibly, the repricing portion of the late-payment warning can be omitted, if it would add nothing to the repricing notice that appears below it. On the other hand, if a further late payment may trigger a further rate increase, then the late-payment warning should say that, rather than what it does say in this sample. In subsequent periods, the late-payment warning should say that the account is already at the penalty APR and will remain there until a specified time passes with good behavior (assuming that that statement is true).

Although these modifications would complicate the disclosure regime somewhat, they are necessary to make the disclosures accurate, meaningful, and actionable by the consumer.

b. Some flexibility in layout of the periodic statement is desirable, and is consistent with the rules that the Board has proposed.

In our consumer research, the Board's proposed form of periodic statement fared well in communicating important information successfully to consumers. Our consumer research did indicate that some variations from the sample form provided by the Board would be desirable. Those changes, which we believe are within the mandates of the proposed rules, and therefore do not require changes in the proposed rules (though they might usefully be endorsed in the Board's supplementary information), are shown in Attachment A to this letter. Those changes include the following:

- The "summary of account activity" is moved further down on the left side, underneath the payment information.
- The payment information is moved to the top left from the top right.
- The table disclosing changes in account terms is moved from the middle of the page to the top right, on the same level as the payment information.

These shifts in placement achieve several things desired by the consumers who participated in our research:

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[36] 72 Fed. Reg. at 33000.

[37] 72 Fed. Reg. at 33081.

- The consumers thought that the table disclosing changes in account terms was important enough that it should be at the top.

- The consumers also thought that the payment information was important enough that it too should be at the top.

- This juxtaposition of elements, while moving the table of changes in terms to a more prominent location, retains that table's proximity to the transactions, which the consumers also desired.

- This organization also enables a significant number of the transactions to appear on the first page of the statement. Consumers want this, but the transactions could otherwise be substantially crowded off the first page by significant term changes requiring a large table.

- At the same time, this organization allows extra space for such things as financial advice to customers (Attachment A shows a set of financial principles that Capital One frequently sends customers, appearing on a tear-off above the periodic statement), rewards information, which is important to many consumers, and marketing information (a legitimate use of periodic statement space if the statement otherwise meets the requirements of Regulation Z).

We note that the Board's proposed form of periodic statement is adapted to the needs of consumers who tend to revolve a balance. So is our proposed Attachment A. Consumers in our research population who pay down their balance every month, on the other hand, are less interested in much of the information on the periodic statement, and more interested in a succinct version of payment information such as Capital One currently provides in a set of "bubbles" that run across the top of the periodic statement. It would be possible to combine a disclosure of that kind with the box format that the Board currently proposes. Attachment B shows how that might be done while still meeting the requirements of the proposed Regulation Z.

c. The Board should eliminate the "effective APR" disclosure.

Although we are impressed with the time and effort that the Board has invested in the "fee-inclusive APR" as one alternative solution to the "effective APR" problem, we believe that that alternative simply makes the best of a bad situation: The "effective APR" is inherently confusing and not meaningful. The proposed disclosures of fees on the periodic statement are a more effective way of communicating account costs that are associated with fees. Consequently, the Board should eliminate the effective APR.

d. It is not necessary for the Board to ask Congress to lengthen the Truth in Lending Act's 14-day minimum for interest-free periods.

The Board asks "whether it should recommend to Congress that the 14-day period be increased to a longer time period, so that consumers will have additional time to receive their statements and mail their payments to ensure that payments will be received by the due date ..."[38] While we appreciate the Board's concern with this issue, we believe that it is clearly not necessary to ask Congress to make this change. The Truth in Lending Act states that the periodic statement must be "mailed *at least* 14 days prior to the date specified in the statement by which payment must be made in order to avoid imposition of a finance charge."[39] The statute does not say that the minimum period may not be longer, and the Board may make it so by rule. That the Board has ample rulemaking authority to make that change is illustrated by other changes that the Board is proposing to make without any Congressional authorization, notably:

- Extending the 15-day period for change-in-terms notices (itself not mandated by TILA) to 45 days.

- Creating a 45-day advance notice for penalty repricing where TILA does not require any advance notice.

So the Board should feel comfortable making this change if it wishes. With respect to the Board's further question of what additional time would be appropriate, we believe that an additional week would be ample, extending the period from 14 to 20 or 21 days.

e. The minimum-payment disclosure should be mandated for a more meaningful population of consumers.

We endorse the Board's decision not to mandate delivery of the minimum-payment disclosures to all customers. Instead, the Board proposes to make the disclosures mandatory for all customers who have not paid their balance in full for at least the two preceding periods.[40] However, the population who would receive the disclosure under that principle would still include very many people who do not need it and would likely ignore it. Those consumers who may need the disclosure are those who pay the minimum, and the population who receive the disclosure should be defined on that basis. At Capital One, we deliver a minimum-payment warning to all those customers who have paid only the minimum amount for the previous three periods. While there is no magic to defining the population in that precise way, we believe that the relevant population should be defined as consumers having some relationship to the minimum payment.

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[38] 72 Fed. Reg. at 32973.

[39] TILA § 163(a) (emphasis added).

[40] 72 Fed. Reg. at 33004-05.

We note that the disclosure prescribed by the Bankruptcy Reform Act is a dense block of prose. If it is repeated incessantly for consumers whether they need it or not, it is likely to be overlooked and ignored, and hence fail in its purpose.

4. Billing Disputes

a. The Board should not interpret TILA's billing-dispute provisions to discourage credit card issuers from supporting use of third-party payment systems.

The Board has proposed a new comment 13(a)(3)-2 that would extend the "billing error" concept of disputes about property or services that are not accepted by the consumer or not delivered as agreed, to purchases made through a third-party payment intermediary. In those circumstances, the party to whom the credit card issuer delivers the funds – the merchant for purposes of the credit card network – is the third-party payment intermediary, and not the seller of goods or services to the credit card issuer's customer. No infrastructure may exist to enable investigation, dispute resolution, and if necessary, charge-back to that seller. Nevertheless, the Board's proposed comment states: "Under these circumstances, the property or service for which the extension of credit is made is not the payment service, but rather the good or service that the consumer has purchased using the payment service."[41] However, in the absence of a framework for conducting investigations and making charge-backs, there is no basis for extending the meaning of the statute as the Board proposes.

The Board's reasoning is as follows:

- "Because the consumer has billing error rights with respect to purchases made with checks that access a credit card account, the Board believes the same result should apply when the customer makes a purchase using a third-party intermediary funded using the same credit card account." [42] And:

- "[T]he Board believes that there is little difference between a consumer using his or her credit card to make a payment directly to the merchant on the merchant's Internet Web site or to make a payment to the merchant through a third-party intermediary."[43]

Neither argument supports the comment that the Board proposes.

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[41] *Id.* at 33136.

[42] *Id.* at 33017.

[43] 72 Fed. Reg. at 33017-18.

- While the Board is correct that access checks are not supported by a credit card network permitting investigations and charge-backs, the credit card issuer delivers funds directly (by means of the check) to the merchant, and therefore the merchant transaction is the transaction to which the statute's billing rights must apply – whether there is a network to facilitate disputes or not. In the third-party payment situation, the credit card issuer delivers funds to the third-party payment system, and it is that transaction to which the statute's billing-rights provisions should apply, unless policy consideration compel the provisions to be extended downstream. Instead, policy considerations militate against such extension, because of the absence of such a dispute-resolution mechanism. Further, in the case of access checks, while the credit card issuer takes the risk in issuing the access checks that they may give rise to disputes that are not easy to resolve, the issuer can control that risk by not issuing a check, or by issuing it in a limited amount, or issuing limited numbers. Moreover, access checks are often used to pay other debt, in which disputes over goods and services would not arise. But disputes involving the third-party payment system will always be disputes involving goods and services. And, that risk is harder for the credit card issuer to control or minimize – except by blocking transactions with the third-party payment provider altogether, a result that the Board might prefer not to encourage.

- Payments made by the customer directly to a merchant through its website are not at all comparable to payments made using a third-party payment system. The reason is that the merchant is part of the credit card network, which provides an existing infrastructure for dispute resolution. The Board's reasoning ignores that critical distinction.

In sum, the Board should not introduce a significant obstacle to the use of third-party payment systems by extending a set of rights and responsibilities where the statute does not require it, and where there is no infrastructure in place to enable the credit card issuer to administer those rights.

b. The Board should give effect to the $50 forfeiture provision of TILA § 161(e).

The Board proposes to add a new comment interpreting the Truth in Lending Act's requirement that the lender must resolve billing disputes within two cycles after receiving a customer notice. Proposed comment 13(c)(2)-2 would say that "once the two-billing cycle period for completing an investigation of an alleged billing error has expired, a creditor may not reverse any amounts previously credited related to that alleged billing error, *even if the creditor subsequently obtains evidence indicating that the billing error did not occur as asserted by the consumer*."[44] But the statute in fact does not include such a draconian rule. Instead, the statute says: "Any creditor who fails to comply with the requirements of this section ... forfeits any right to collect from the

[44] 72 Fed. Reg. at 33137 (emphasis added).

obligor the amount indicated by the obligor ... *except that the amount required to be forfeited under this subsection may not exceed $50.*"[45]

By precluding the lender in any case from charging a disputed amount to the customer outside the two-cycle window, the Board would render § 162(e) a dead letter. It is, of course, a fundamental principle of statutory construction that every provision should be given meaning.[46]

As a practical matter, most disputes are resolved in far less time than two billing cycles. However, the statutory provision exists for a good reason: Some disputes cannot be resolved within two billing cycles, and in some of those cases, the consumer in fact owes the disputed amount. Notably, Regulation Z does not apply to merchants. Decisive evidence to resolve a dispute is likely to come from the merchants with whom the consumer was dealing, and those merchants are not bound by the two-cycle period. The statute resolves this dilemma, while enforcing the two-cycle requirement, by providing that only a significant transaction (more than $50) may be rebilled outside the two-cycle period, and then only subject to the $50 forfeiture. Without such a compromise solution, the consumer who in fact owes the disputed amount would receive an undeserved windfall, an outcome that Congress obviously balanced against the need for finality. The Board should not upset that balance.

* * *

Capital One appreciates the opportunity to comment on the Board's proposed rule revisions. If you have any questions about this matter and our comments, please call me at 703-720-1030.

Sincerely,

/s/

John G. Finneran, Jr.
General Counsel

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[45] TILA § 162(e) (emphasis added).

[46] *E.g.*, Duncan v. Walker, 530 U.S. 167, 174 (2001).

YourBank

Attachment A

Keep your Finances Fit

- Know your credit limit and the amount of credit available for your use.
- Maintain a good credit history … it affects more areas of your life than just your ability to get a credit card.
- Use a budget to help you see what you can afford to buy now and to help you save for the future.
- Understand that the cost of credit includes fees as well as interest.
- Request a copy of your credit report from a credit reporting bureau regularly.

YourBank www.yourbank.com

February 21, 2007 - March 22, 2007 Visa® Platinum Account 9999-9999-9999-9999 Page 1 of 2

Payment Information

New Balance	$1,784.53
Minimum Payment Due	$48.00
Payment Due Date	4/20/07 (before 2:00 pm)

Late Payment Warning: If we do not receive your minimum payment by the date listed above, you may have to pay a $35 late fee and your APRs may be increased up to the Penalty APR of 28.99%.

Notice about Minimum Payments: If you make only the minimum payment each period, you will pay more in interest and it will take you longer to pay off your balance. For example, if you had a balance of $1,000 at an interest rate of 17% and always paid only the minimum required, it would take over 7 years to repay this balance. For an estimate of the time it would take to repay your actual balance making only minimum payments, call 1-800-214-5079.

Summary of Account Activity

Previous Balance	$535.07
Payments	-$450.00
Other Credits	-$13.45
Purchases	+$529.57
Balance Transfers	+$785.00
Cash Advances	+$318.00
Past Due Amount	+$0.00
Fees Charged	+$69.45
Interest Charged	+$10.89
New Balance	**$1,784.53**
Credit limit	$2,000.00
Available credit	$215.47
Statement closing date	3/22/2007
Days in billing cycle	30

At Your Service 1-800-214-5079
To call Customer Relations or to report a lost or stolen card

Send inquiries to:
YOUR BANK SERVICES • P. O. BOX 85015 •
RICHMOND, VA 23285-5015

Important Changes to Your Account Terms

The following is a summary of changes that are being made to your account terms. You have the right to opt out of these changes. For more detailed information, please refer to the booklet enclosed with this statement. The effective date of these changes is 5/10/07. Note: The change to your APR for purchases described below wil not go into effect at this time if you are already being charged a higher Penalty APR on purchases. This change will go into effect when the Penalty APR no longer applies.

Revised Terms, as of 5/10/07

APR for Purchases	16.99%
Late Payment Fee	$32 if your balance is less than or equal to $1,000; $39 if your balance is more than $1,000

Transactions

Reference Number	Trans Date	Post Date	Description	Amount
			Payments and Other Credits	
00000000000000000000	2/25	2/25	PAYMENT – Thank you	$450.00-
00000000000000000000	3/4	3/5	Store #13	$13.45-
			Purchases	
00000000000000000000	2/22	2/23	Store #1	$2.05
00000000000000000000	2/22	2/23	Store #2	$12.11
00000000000000000000	2/22	2/23	Store #3	$4.63
00000000000000000000	2/2	2/23	Store #4	$2.05
00000000000000000000	2/22	2/23	Store #5	$12.11
00000000000000000000	2/22	2/23	Store #6	$4.63
00000000000000000000	2/22	2/23	Store #7	$2.05
00000000000000000000	2/22	2/23	Store #8	$12.11
00000000000000000000	2/22	2/23	Store #9	$4.63
00000000000000000000	2/22	2/23	Store #10	$2.05
00000000000000000000	2/28	3/1	Store #11	$14.76
00000000000000000000	3/1	3/2	Store #12	$3.76
00000000000000000000	3/1	3/3	Store #13	$13.45
00000000000000000000	3/2	3/6	Store #14	$2.35
00000000000000000000	3/5	3/12	Store #15	$25.00
00000000000000000000	3/11	3/12	Store #16	$7.34
00000000000000000000	3/11	3/16	Store #17	$10.56
00000000000000000000	3/15	3/17	Store #18	$24.50

(TRANSACTIONS CONTINUED NEXT PAGE)

NOTICE: SEE REVERSE SIDE FOR IMPORTANT INFORMATION

PLEASE RETURN THIS PORTION WITH YOUR PAYMENT OR LOG ON TO WWW.YOURBANK.COM TO MAKE YOUR PAYMENT ONLINE

YourBank 0000000 0 9999999999999999 00 99990001000001000004256

New Balance	Minimum Payment	Due Date
$1,784.53	$48.00	4/20/07
	PLEASE PAY AT LEAST THIS AMOUNT	BEFORE 2:00 PM EST

Amount Enclosed

YOUR BANK
ATTN: REMITTANCE PROCESSING
PO BOX 85547
RICHMOND VA 23285-5547

Account Number: 9999-9999-9999-9999

Please print address or phone number changes below using blue or black ink.

Address

Home Phone Alternate Phone

E-mail address @

99999999999999999 MAIL ID NUMBER
JOHN Q. CUSTOMER
JANE Q. CUSTOMER
APT NO DD
123 MAIN STREET
ANY CITY, ANYWHERE 23285-5547

Please write your account number on your check or money order made payable to YourBank and mail with this coupon in the enclosed envelope.

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February 21, 2007 - March 22, 2007 Visa® Platinum Account 9999-9999-9999-9999 Page 2 of 2

Fee-Inclusive APR

The Fee-Inclusive APRs in this table are the APRs that you paid this period when transaction or fixed fees are taken into account as well as interest.

Type of Balance	Interest Charges	Transaction or Fixed Fees	Fee-Inclusive APR
Purchases	$6.31	$0.00	14.99%
Cash Advances	$4.58	$10.90	58.42%
Balance Transfers	$0.00	$23.55	36.00%

Interest Charge Calculation

Your Annual Percentage Rate (APR) is the annual interest rate on your account

Type of Balance	Annual Percentage Rate (APR)	Balance Subject to Interest Rate	Interest Charge
Purchases	14.99% (v)	$512.14	$6.31
Cash Advances	21.99% (v)	$253.50	$4.58
Balance Transfers	0.00%	$637.50	$0.00

(v) = Variable Rate

Transactions (continued)

Reference Number	Trans Date	Post Date	Description	Amount
00000000000000000000	3/16	3/17	Store #19	$8.76
00000000000000000000	3/17	3/18	Store #20	$14.23
00000000000000000000	3/19	3/20	Store #21	$23.76
			Cash Advances	
00000000000000000000	2/22	2/23	Cash Advance	$121.50
00000000000000000000	2/22	2/23	Cash Advance	$196.50
			Balance Transfers	
00000000000000000000	2/22	2/23	Balance Transfer	$765.00
			Fees	
00000000000000000000	2/23	2/23	Late Fee	$35.00
00000000000000000000	2/26	2/26	Cash Advance Fee	
			Transaction Fee	$5.00
00000000000000000000	2/27	2/27	Balance Transfer Fee	
			Transaction Fee	$23.55
00000000000000000000	2/28	2/28	Cash Advance Fee	
			Transaction Fee	$5.90
			TOTAL FEES THIS PERIOD	$89.45
			Interest Charged	
			Interest Charge on Purchases	$6.31
			Interest Charge on Cash Advances	$4.58
			TOTAL INTEREST THIS PERIOD	$10.89

2007 Totals Year-To-Date

Total fees charged in 2007	$90.14
Total interest charged in 2007	$18.27

Did you know that YourBank also offers Home Equity and Mortgage products? Consolidate debt with one low rate and take advantage of our high loan amounts. Visit www.yourbank/homeequity.com today to learn how you can save with a brand you trust!

Thank you for choosing YourBank. Remember, your account terms may change if your account does not remain in good standing. Any new terms will take effect as stated in your offer within three billing cycles.

YourBank

Attachment B

Keep your *Finances Fit*

- Know your credit limit and the amount of credit available for your use.
- Maintain a good credit history … it affects more areas of your life than just your ability to get a credit card.
- Use a budget to help you see what you can afford to buy now and to help you save for the future.
- Understand that the cost of credit includes fees as well as interest.
- Request a copy of your credit report from a credit reporting bureau regularly.

YourBank www.yourbank.com

Previous Balance		Payments &Credits		Finance Charges		Transactions		New Balance	Minimum Payment	Due Date
$1,423.64	-	$450.00	+	$10.89	+	$800.00	=	$1,784.53	$48.00	Apr. 20, 2007

February 21, 2007 - March 22, 2007 Visa® Platinum Account 9999-9999-9999-9999 **Page 1 of 2**

Summary of Account Activity

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Payments	-$450.00
Other Credits	-$13.45
Purchases	+$529.57
Balance Transfers	+$785.00
Cash Advances	+$318.00
Past Due Amount	+$0.00
Fees Charged	+$69.45
Interest Charged	+$10.89
New Balance	**$1,784.53**
Credit limit	$2,000.00
Available credit	$215.47
Statement closing date	3/22/2007
Days in billing cycle	30

Payment Information

New Balance	**$1,784.53**
Minimum Payment Due	**$48.00**
Payment Due Date	**4/20/07 (before 2:00 pm)**

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00000000000000000000	2/22	2/23	Store #5	$12.11
00000000000000000000	2/22	2/23	Store #6	$4.63
00000000000000000000	2/22	2/23	Store #7	$2.05
00000000000000000000	2/22	2/23	Store #8	$12.11
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00000000000000000000	3/15	3/17	Store #18	$24.50

(TRANSACTIONS CONTINUED NEXT PAGE)

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YourBank 0000000 0 9999999999999999 00 99990001000001000004256

New Balance	Minimum Payment	Due Date
$1,784.53	$48.00	4/20/07
	PLEASE PAY AT LEAST THIS AMOUNT	BEFORE 2:00 PM EST

Amount Enclosed

YOUR BANK
ATTN: REMITTANCE PROCESSING
PO BOX 85547
RICHMOND VA 23285-5547

Account Number: 9999-9999-9999-9999

Please print address or phone number changes below using blue or black ink.

Address

Home Phone *Alternate Phone*

E-mail address @

9999999999999999 MAIL ID NUMBER
JOHN Q. CUSTOMER
JANE Q. CUSTOMER
APT NO 00
123 MAIN STREET
ANY CITY, ANYWHERE 23285-5547

Please write your account number on your check or money order made payable to YourBank and mail with this coupon in the enclosed envelope.

YourBank www.yourbank.com

February 21, 2007 - March 22, 2007 **Visa® Platinum Account** 9999-9999-9999-9999 **Page 2 of 2**

Interest Charge Calculation

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Cash Advances	$4.58	$10.90	58.42%
Balance Transfers	$0.00	$23.55	36.00%

Rewards Summary

(reflects transactions posted during this billing cycle)

PREVIOUS BALANCE:	3.87
EARNED THIS PERIOD:	1.94
ADJUSTMENTS:	
REDEEMED THIS PERIOD	3.00
EXPIRED/FORFEITED THIS PERIOD:	0.00
ACCOUNT STATUS ADJUSTMENTS	0.00
AVAILABLE BALANCE	2.81

Transactions (continued)

Reference Number	Trans Date	Post Date	Description	Amount
00000000000000000000	3/16	3/17	Store #19	$8.76
00000000000000000000	3/17	3/18	Store #20	$14.23
00000000000000000000	3/19	3/20	Store #21	$23.76
			Cash Advances	
00000000000000000000	2/22	2/23	Cash Advance	$121.50
00000000000000000000	2/22	2/23	Cash Advance	$196.50
			Balance Transfers	
00000000000000000000	2/22	2/23	Balance Transfer	$785.00
			Fees	
00000000000000000000	2/23	2/23	Late Fee	$35.00
00000000000000000000	2/26	2/26	Cash Advance Fee	
			Transaction Fee	$5.00
00000000000000000000	2/27	2/27	Balance Transfer Fee	
			Transaction Fee	$23.55
00000000000000000000	2/28	2/28	Cash Advance Fee	
			Transaction Fee	$5.90
			TOTAL FEES THIS PERIOD	$69.45
			Interest Charged	
			Interest Charge on Purchases	$6.31
			Interest Charge on Cash Advances	$4.58
			TOTAL INTEREST THIS PERIOD	$10.89

2007 Totals Year-To-Date

Total fees charged in 2007	$90.14
Total interest charged in 2007	$18.27

Did you know that YourBank also offers Home Equity and Mortgage products? Consolidate debt with one low rate and take advantage of our high loan amounts. Visit www.yourbank/homeequity.com today to learn how you can save with a brand you trust!

Thank you for choosing YourBank. Remember, your account terms may change if your account does not remain in good standing. Any new terms will take effect as stated in your offer within three billing cycles.

Credit Card Case Histories:
Eight Examples of Unfair Interest Rate Increases

The following eight case histories are the result of a bipartisan investigation of the U.S. Senate Permanent Subcommittee on Investigations into unfair credit card practices. These histories detail the experiences of individual consumers who paid their credit card bills in compliance with the terms set by their credit card issuers, but whose interest rates were nevertheless increased. Each case history includes a brief description of the cardholder and circumstances surrounding the interest rate increase, as well as a chart with specific data related to their credit card account.

The data contained in these charts is taken from the credit card billing statements sent to the cardholders. Because purchases made in one month typically appear on the billing statement sent out in the next month, the charts synthesize data from two consecutive billing statements. The first three columns of the chart identify the month in which the closing date occurs for purchases that were or could have been made on the credit card, the interest rate applicable to such purchases, and the total amount of purchases actually made during the billing month. The next three columns identify the total amount of funds paid by the cardholder each month, and show how much of that payment went to pay for fees or interest charges and how much to reduce the cardholder's actual debt. The final column of the chart shows the cardholder's overall balance – the entire debt owed on the credit card – after the payment was made.

Here is a sample chart for illustration:

ABC Credit Card **Credit Limit: $4,500, increased to $5,500 in 2/07**

Transaction Period	Interest Rate	Purchases	Applicable Payment	Amount Paid Toward: Interest and Fees	Amount Paid Toward: Reduction in Principal	Balance after Payment
Jan. '07	10.00%	$100.00	$300.00	$135.00*	$165.00	$5,000.00
Feb. '07	15.00%	$0.00	$300.00	$179.00**	$121.00	$4,879.00

*Includes $39 over-the-limit fee.
**Includes $39 late fee.

Explanation: In January 2007, the cardholder purchased $100 worth of goods. The interest rate applicable at that time was 10% and the credit limit was $4,500. After receiving a credit card bill in the subsequent month, the cardholder made a payment of $300, of which $135 was used to pay a $39 over-the-limit fee and $96 in interest charges on pre-existing credit card debt, leaving $165 to reduce the overall debt. The resulting balance owed by the consumer after making the $300 payment was $5,000. In February 2007, the cardholder made no new purchases. That same month, the interest rate was increased to 15%, and the credit limit was raised to $5,500. The cardholder received the billing statement in the subsequent month and paid $300 after the due date. Of that $300, $179 was used to pay a $39 late fee and $140 in interest charges, leaving $121 to reduce the principal debt. Subtracting $121 from $5,000 leaves a total balance owing of $4,879. (Note: If purchases had been made during February, the cost would have been added to the new balance total shown for the month.)

Prepared by the U.S. Senate Permanent Subcommittee on Investigations, December 2007

Permanent Subcommittee on Investigations
EXHIBIT #1

Case History No. 1: Janet Hard
Freeland, Michigan

Janet Hard is a 42 year old registered nurse. She is married, with two children, and her husband works as a steamfitter. She has a credit card with Discover, which she has not used to make purchases in over a year other than to make an $8 monthly payment for high speed Internet access. She makes regular monthly payments of $200 to pay off an existing debt on the card of about $8,500. Ms. Hard has never made a late payment or exceeded her credit limit on the Discover card, and always paid at least the minimum amount due.

In May 2006, Discover increased Ms. Hard's interest rate from about 18% to 24%. Ms. Hard did not realize her interest rate had been increased until later when she saw that her debt was not decreasing and went back to look at her billing statements a second time. After she complained, Discover lowered the interest rate to about 21%.

When she called Discover, Ms. Hard was told that her interest rate had been increased, because her credit card debt was too near her credit limit, she had too many credit cards, and she had delinquencies on credit cards at other companies. Ms. Hard is unable to explain these concerns, since she and her husband have always been careful to meet their credit obligations. When questioned by the Subcommittee, Discover explained that a credit bureau had reduced Ms. Hard's FICO credit score which, in turn, had caused the bank's automated system to impose a higher interest rate on her card. The bank did not know what specific events had triggered the lower credit score, other than the general reasons cited above which were supplied by the credit bureau. Discover also admitted that, despite increasing Ms. Hard's interest rate because she supposedly posed a greater credit risk, it raised her credit limit, in August 2007, from $10,000 to $11,000.

Discover applied the increased interest rate to Ms. Hard's existing credit card debt. In February 2006, under the 18% interest rate, out of her $200 monthly payment, about $148 went to pay for finance charges and $52 went to pay down her principal debt. In February 2007, under the 24% interest rate, $176 went to finance charges and only about $24, less than half the amount previously, went to pay down the principal debt.

Over the last year, Ms. Hard has charged less than $100 on her Discover card, incurred interest rates of 21% to 24%, and paid Discover a total of $2,400. Despite this year of steady payments, her November 2006 debt of about $8,300 fell by just $350 and, as of October 2007, she still owed Discover nearly $8,000.

Janet Hard
Freeland, Michigan

Discover Card **Credit Limit: $10,000, increased to $11,000 in 8/07**

Transaction Period	Interest Rate	Purchases	Applicable Payment	Amount Paid Toward: Interest and Fees*	Amount Paid Toward: Reduction in Principal	Balance after Payment
Feb. '06	17.99%	$273.34	$200.00	$148.31	$51.69	$9,428.64
March '06	18.24%	$159.52	$225.00	$136.91	$88.09	$9,500.07
April '06	23.74%	$7.95	$1,500.00	$197.88	$1,302.12	$8,205.90
May '06	23.74%	$7.95	$300.00	$188.40	$111.60	$8,102.25
June '06	23.99%	$15.11	$200.00	$172.48	$27.52	$8,089.84
July '06	24.24%	$7.95	$200.00	$166.11	$33.89	$8,063.90
Aug. '06	24.24%	$324.96	$200.00	$178.19	$21.81	$8,367.05
Sept. '06	24.24%	$7.95	$193.00	$177.50	$15.50	$8,359.50
Oct. '06	24.24%	$7.95	$200.00	$171.81	$28.19	$8,339.26
Nov. '06	24.24%	$7.95	$200.00	$177.19	$22.81	$8,324.40
Dec '06	24.24%	$7.95	$200.00	$171.23	$28.77	$8,303.58
Jan. '07	24.24%	$7.95	$200.00	$176.45	$23.55	$8,287.98
Feb. '07	24.24%	$7.95	$200.00	$176.13	$23.87	$8,272.06
March '07	24.24%	$7.95	$200.00	$158.70	$41.30	$8,238.71
April '07	24.24%	$7.95	$200.00	$175.23	$24.77	$8,221.89
May '07	24.24%	$7.95	$200.00	$169.17	$30.83	$8,199.01
June '07	20.99%	$7.95	$200.00	$150.95	$49.05	$8,157.91
July '07	20.99%	$8.91	$200.00	$145.10	$54.90	$8,111.92
Aug. '07	20.99%	$7.95	$200.00	$149.27	$50.73	$8,069.14
Sept. '07	20.99%	$7.95	$200.00	$148.50	$51.50	$8,025.59
Oct. '07	20.99%	$7.95	$200.00	$142.88	$57.12	$7,976.42

*No late or over-the-limit fees were charged.

Case History No. 2: Millard Glasshof
Milwaukee, WI

Millard Glasshof is an 81-year-old retired engineer living on a fixed income. He has had one credit card for many years, administered first by Wachovia, then Bank One, and, since 2005, by Chase after it purchased Bank One. Mr. Glasshof has not used this card to make purchases since 2001, instead making monthly payments to reduce a debt which at its height was about $6,400.

From 2001-2003, Mr. Glasshof participated in several Bank One payment programs that, after closing his account, allowed him to pay down his debt using a low interest rate. He did not always complete these programs successfully, but continued to reduce his debt. In 2003, after he missed one or more payments, Bank One increased his interest rate to 15%. For the next four years, until recently, Mr. Glasshof made regular payments of $119 per month to reduce his debt. His bank statements show, for example, that he has not missed a single payment in over two years. Although $119 is less than the minimum specified on his billing statements, Chase did not charge him a late fee. Chase did, however, charge him multiple over-the-limit fees, since his debt exceeded the card's $4,500 credit limit. In March 2007, Chase stopped these fees after discontinuing its policy of charging unlimited over-the-limit fees in response to a single overage.

In December 2006, Chase increased his interest rate to 17%. In February 2007, Chase increased it again to 27%. When Mr. Glasshof called Chase to ask why, he told the Subcommittee he was not given a satisfactory explanation, especially since his circumstances were unchanged. When questioned by the Subcommittee, Chase explained that a special automated initiative to "clean up" closed accounts had flagged his account due to a low credit score and caused the December interest rate increase. Chase said the February increase occurred, because Mr. Glasshof "had failed to bring his balance below his credit limit," even though that had been true for more than six years, it was Chase's interest charges and fees that were keeping him above the limit, and he was in excess of the limit by only $300.

Chase applied the 27% rate to Mr. Glasshof's existing credit card debt. Prior to the increase, out of his monthly $119 payment, about $92 went to pay for finance charges and $27 to pay down the principal debt. After the increase, about $114 went to finance charges and only $5 went to pay down the principal debt.

Over the last twelve months, Mr. Glasshof made payments to Chase totaling roughly $1,300. Despite this year of steady payments, due to high interest rates and fees, his October 2006 debt of about $4,800 did not decline at all.

In August 2007, Mr. Glasshof received a letter telling him his minimum payment would change. Because the letter was confusing and difficult to read, he called Chase and was advised to change his minimum payment to $111. After making this payment, Mr. Glasshof was assessed a late fee of $39 on top of his interest charges, apparently because he should have made a larger payment. In response, he took out a personal loan and completely paid off his Chase credit card. What he did not know is that, the same month he took out the loan, Chase had lowered his credit card interest rate to 6%.

Millard Glasshof
Milwaukee, WI

Chase **Credit Limit: $4,500**

Transaction Period	Interest Rate	Purchases	Applicable Payment	Amount Paid Toward: Interest and Fees	Amount Paid Toward: Reduction in Principal	Balance after Payment
Jan. '06	14.99%	$0.00	$119.00	$96.89*	$22.11	$5,187.73
Feb. '06	14.99%	$0.00	$119.00	$96.67*	$22.33	$5,165.40
March '06	14.99%	$0.00	$119.00	$89.96*	$29.04	$5,136.36
April '06	14.99%	$0.00	$119.00	$96.07*	$22.93	$5,113.43
May '06	14.99%	$0.00	$119.00	$93.78*	$25.22	$5,088.21
June '06	14.99%	$0.00	$119.00	$95.35*	$23.65	$5,064.56
July '06	14.99%	$0.00	$119.00	$63.37	$55.63	$5,008.93
August '06	14.99%	$0.00	$119.00	$64.77	$54.23	$4,954.70
Sept. '06	14.99%	$0.00	$119.00	$64.41	$54.59	$4,900.11
Oct. '06	14.99%	$0.00	$119.00	$61.68	$57.32	$4,842.79
Nov. '06	14.99%	$0.00	$119.00	$91.82*	$27.18	$4,815.61
Dec. '06	17.24%	$0.00	$119.00	$115.76*	$3.24	$4,812.37
Jan. '07	17.24%	$0.00	$119.00	$118.51*	$0.49	$4,811.88
Feb. '07	27.24%	$0.00	$119.00	$153.13*	-$34.13	$4,846.01
March '07	27.24%	$0.00	$119.00	$104.10	$14.90	$4,831.11
April '07	27.24%	$0.00	$119.00	$114.57	$4.43	$4,826.68
May '07	27.24%	$0.00	$119.00	$110.06	$8.94	$4,817.74
June '07	27.24%	$0.00	$119.00	$114.08	$4.92	$4,812.82
July '07	27.24%	$0.00	$119.00	$110.38	$8.62	$4,804.20
August '07	27.24%	$0.00	$111.00	$113.67	-$2.67	$4,806.87
Sept. '07	26.74%	$0.00	$111.00	$151.12**	-$40.12	$4,846.99
Oct. '07	6.00%	$0.00	Loan taken			$0.00

*Includes over-the-limit fee of $29 or $39.

**Includes late fee of $39.

Case History No. 3: Bonnie Rushing
Naples, Florida

Bonnie Rushing has been employed as a corporate paralegal for many years. Her husband is a retired engineer. She has two Bank of America credit cards, one of which is affiliated with the Automobile Association of American ("AAA"). For years, both cards carried an interest rate of about 8%. Ms. Rushing has never made a late payment or exceeded the credit limit on either card, and always paid at least the minimum amount due. In April 2007, Bank of America nearly tripled the interest rate on the AAA card, increasing it from 8% to 23%.

Ms. Rushing first noticed the increase on her April billing statement. She called the bank, which said that she had failed to take advantage of a change-in-term notice mailed earlier that would have allowed her to reject the increase, close her account, and pay the debt at the old rate. Ms. Rushing explained that she never received the notice and noted that when a similar notice had been sent to her in 2004, she had responded in a timely manner and kept her prior rate. Ms. Rushing told the Subcommittee that, in two conversations, bank personnel pressed her to agree to a rate lower than 23% but higher than her 8% rate. When she refused and Bank of America declined to restore her prior rate, Ms. Rushing sent a letter of complaint to the Florida Attorney General who forwarded it to Bank of America's primary federal regulator. Ms. Rushing also asked AAA to close her account. AAA intervened on her behalf, and Bank of America agreed to apply the prior 8% rate to her closed account. The bank informed its regulator that it had resolved Ms. Rushing's complaint about its conduct.

Ms. Rushing asked the bank why her interest rate had been increased, and was told that her debt was too high compared to her credit limit, even though her debt level had not substantially changed in months and had been higher in the past when the bank allowed her to cash a $2,500 credit card check. When questioned by the Subcommittee, Bank of America explained that a credit bureau had reduced Ms. Rushing's credit score which, in turn, had caused the bank's automated system to impose a higher interest rate on the card in question, though not the second card which retained its 8% rate. The bank did not know what specific events triggered the lower credit score. Ms. Rushing speculated that her credit score may have been affected when, in January and March 2007, she opened Macy's and J. Jill credit cards to obtain discounts on purchases of cosmetics and clothes. She has since closed both accounts.

Bank of America applied the 23% interest rate to Ms. Rushing's existing debt on her AAA card, increasing her finance charges substantially. Under the prior interest rate, her finance charges were in the range of $150 each month. Under the 23% rate, her finance charges were in the range of $450, three times greater. When the bank closed her account and restored her prior rate, it also refunded about $600 in interest charges from just the two months the higher rate had been in effect.

Bonnie Rushing
Naples, Florida

Bank of America (AAA) **Credit Limit: $ 24,100**

Transaction Period	Interest Rate	Purchases	Applicable Payment	Amount Paid Toward: Interest and Fees	Amount Paid Toward: Reduction in Principal	Balance after Payment
Oct. '06	7.90%	$0.00	$400.00	$141.54	$258.46	$21,219.29
Nov. '06	7.90%	$2,500.00*	$400.00	$202.26**	$197.74	$23,521.55
Dec. '06	7.90%	$0.00	$390.00	$149.83	$240.17	$23,281.38
Jan. '07	7.90%	$0.00	$400.00	$163.66	$236.34	$23,045.04
Feb. '07	7.90%	$550.00 (medical)	$400.00	$155.42	$244.58	$23,350.46
March '07	7.90%	$0.00	$395.00	$153.83	$241.17	$23,109.29
April '07	22.90%	$0.00	$680.00	$443.71	$236.29	$22,873.00
May '07	22.90%	$0.00	$700.00	$459.00	$851.68***	$22,021.32
June '07	7.99%	$0.00	$400.00	$156.39	$243.61	$21,777.71
July '07	7.99%	$0.00	$400.00	$145.23	$254.77	$21,522.94
August '07	7.99%	$0.00	$400.00	$148.20	$251.80	$21,271.14

* Used credit card check to obtain this amount from Bank of America.
**Includes $50 fee for using the credit card check.
No late or over-the-limit fees were charged.
***Includes $610.68 refunded by bank for past interest charges under 23% rate.

Case History No. 4: Gayle Corbett
Seattle, Washington

Gayle Corbett works full time at the Seattle courthouse. She has multiple credit cards, keeps careful track of the amounts she owes, and pays her bills on time, providing more than the minimum due each month. In 2007, despite her regular payments, the interest rates were increased on her credit cards with Bank of America, Citi Card, and Capital One.

Bank of America increased her interest rate in August 2007, from 15% to 24%, because a credit bureau had lowered her credit score. After the Subcommittee inquired about the account, the bank reduced her rate to 10%, and she agreed to suspend new purchases until she reduced her debt on the card. In January 2007, Citi Card more than doubled her interest rate, from 11% to 23%. This increase was also due to a lower credit score. Citi announced the next month, in March 2007, that it would no longer increase cardholder interest rates due to lower credit scores unrelated to Citi Card activity, but still declined to restore Ms. Corbett's prior rate. In September, in response to Ms. Corbett's request and an improved credit score, Citi reduced her rate to 19%, still 8% above her original rate. At the same time, Citi increased her credit limit by nearly $2,500.

In September 2007, Capital One increased Ms. Corbett's interest rate from 15% to 19%. Capital One's increase was not due to a lower credit score, but because the bank had decided to pass on its borrowing costs to its cardholders. Ms. Corbett's account was selected by Capital One's automated system, because it had not had an interest rate increase in three years and carried what the bank characterized as a "below market" interest rate. After she complained, Capital One agreed to close her account, restore her prior 15% rate, and credit her account with the excess finance charges imposed earlier.

In twelve months, Ms. Corbett was subjected to interest rate increases on three credit cards, even though she was meeting her credit card obligations. As she contested each increase, her cards were assigned a wide range of interest rates, from 10% to 23%. Her interest rates have settled for the moment at 10%, 19% and 15%, but are subject to further increases by the credit card issuers.

Each of the higher interest rates was applied to Ms. Corbett's credit card debt, increasing her finance charges. In December 2006, for example, prior to the increases, she made monthly payments on all three cards totaling $530, of which $193 went to pay for finance charges. By August 2007, out of monthly payments totaling $580, about $350 went to pay for finance charges, substantially more than previously.

Ms. Corbett told the Subcommittee, "I owe this money. I'm willing to pay my debts – just don't make it harder for me." She said that contesting the three interest rate increases in 2007, none of which were her fault and all of which threatened her ability to repay her debts, had left her exhausted and worried about what would happen next.

Gayle Corbett
Seattle, Washington

Bank of America **Credit Limit: $9,000**

Transaction Period	Interest Rate	Purchases	Applicable Payment	Amount Paid Toward: Interest and Fees*	Amount Paid Toward: Reduction in Principal	Balance after Payment
Oct. '06	15.24%	$23.99	$206.00	$122.25	$83.75	$8,368.13
Nov. '06	15.24%	$0.00	$190.00	$102.52	$87.48	$8,280.65
Dec. '06	15.24%	$0.00	$185.00	$98.95	$86.05	$8,194.60
Jan. '07	15.24%	$326.54	$205.00	$120.25	$84.75	$8,436.39
Feb. '07	15.24%	$26.75	$186.00	$100.90	$85.10	$8,378.04
March '07	15.24%	$157.15	$200.00	$114.87	$85.13	$8,450.06
April '07	15.24%	$26.75	$190.00	$104.62	$85.38	$8,391.43
May '07	15.24%	$54.96	$195.00	$107.62	$87.38	$8,359.01
June '07	15.24%	$200.31	$201.00	$115.77	$85.23	$8,474.09
July '07	15.24%	$26.77	$193.00	$108.93	$84.07	$8,416.79
August '07	23.99%	$200.32	$270.00	$177.39	$92.61	$8,524.50
Sept. '07	9.99%	$0.00	$160.00	$71.61	$88.39	$8,436.11

AT&T Universal/Citi **Credit Limit: $7,100 increased to $9,590 in Sept. 2007**

Transaction Period	Interest Rate	Purchases	Applicable Payment	Amount Paid Toward: Interest and Fees*	Amount Paid Toward: Reduction in Principal	Balance after Payment
Oct. '06	10.81%	$174.30	$130.00	$58.69	$71.31	$6,746.80
Nov. '06	10.81%	$64.99	$140.00	$65.60	$74.40	$6,737.39
Dec. '06	10.84%	$74.87	$260.00	$61.10	$198.90	$6,613.36
Jan. '07	23.31%	$174.54	$201.28	$132.28	$69.00	$6,718.90
Feb. '07	23.31%	$134.31	$208.00	$138.42	$69.58	$6,783.63
March '07	23.31%	$0.00	$200.00	$129.05	$70.95	$6,712.68
April '07	23.31%	$0.00	$201.00	$132.26	$68.74	$6,643.94
May '07	23.31%	$0.00	$212.00	$144.19	$67.81	$6,576.13
June '07	23.31%	$0.00	$190.00	$120.80	$69.20	$6,506.93
July '07	23.31%	$0.00	$200.00	$132.39	$67.61	$6,439.32
August '07	23.52%	$0.00	$220.00	$136.60	$83.40	$6,355.92
Sept. '07	19.10%	$0.00	$165.00	$99.03	$65.97	$6,289.95
Oct. '07	18.52%	$0.00	**	$98.06	**	**

*No late or over-the-limit fees were charged.
** The November billing statement was not available at the time of this analysis.

Gayle Corbett
Seattle, Washington

Capital One **Credit Limit: $3,000**

Transaction Period	Interest Rate	Purchases**	Applicable Payment	Amount Paid Toward: Interest and Fees*	Amount Paid Toward: Reduction in Principal	Balance after Payment
Oct. '06	14.90%	$37.63	$85.00	$35.41	$49.59	$2,779.09
Nov. '06	14.90%	$5.00	$90.00	$37.41	$52.59	$2,731.50
Dec. '06	14.90%	$5.00	$85.00	$33.41	$51.59	$2,684.91
Jan. '07	14.90%	$5.00	$81.00	$35.09	$45.91	$2,644.00
Feb. '07	14.90%	$104.03	$85.00	$35.49	$49.51	$2,698.52
March '07	14.90%	$134.11	$90.00	$32.88	$57.12	$2,775.51
April '07	14.90%	$5.00	$90.00	$36.34	$53.66	$2,726.85
May '07	14.90%	$5.00	$85.00	$34.48	$50.52	$2,681.33
June '07	14.90%	$101.74	$90.00	$44.62	$45.38	$2,737.69
July '07	14.90%	$84.68	$85.00	$36.09	$48.91	$2,773.46
August '07	14.90%	$5.00	$90.00	$35.98	$54.02	$2,724.44
Sept. '07	19.40%	$34.18	$85.00	$44.81	$40.19	$2,718.43
Oct. '07	14.90%	$0.00	***	$36.37	***	***

*No late or over-the-limit fees were charged.
**Includes monthly $5 payment toward $60 Capital One annual credit card fee.
***Capital One will refund past interest charges on the November billing statement. This statement was not available at the time of this analysis.

Case History No. 5: Agnes Holmes
Montgomery, Alabama

Agnes Holmes considers herself a loyal Chase customer; she has two Chase credit cards, one with MasterCard and the other with Visa. Ms. Holmes takes care to stay below the credit limit, always pays the requested amount due, and takes pride in paying her credit card bills on the same day she receives them. Despite her history of on-time payments, in May 2007, Chase increased the interest rate on her Visa card from 19% to 30%.

Ms. Holmes called Chase and asked for her prior rate to be restored but was told that the 30% rate could not be reduced. When questioned by the Subcommittee, Chase explained that Ms. Holmes' credit score had been lowered by a credit bureau which, in turn, had caused the bank's automated system to impose a higher interest rate on her card. The bank did not know what specific events triggered the lower score, other than the general reason provided by the credit bureau that the cardholder had engaged in excessive utilization of her available credit, even though none of her accounts exceeded her credit limits. Ms. Holmes told the Subcommittee that she had not been informed that her credit score was a factor in raising her interest rate, and she had paid all her bills on time for years. In addition, because Ms. Holmes employs a service that tracks her credit reports to prevent identity theft and indicates her credit score each quarter, she provided materials showing that, for the quarters before, during and after the month her interest rate was increased, her credit score had not fallen but remained at or above 700.

Chase applied the 30% interest rate to Ms. Holmes' existing credit card debt, increasing her monthly finance charges. Under the 19% rate, in March 2007, out of a monthly payment of $125, about $75 went to pay for finance charges. After the increase, under the 29% rate, out of a payment of $165 in May 2007, about $118 went to finance charges.

In September, Ms. Holmes informed Chase that she had contacted the Subcommittee about her account. In October, the bank informed her that it would lower the interest rate on her credit card to a 13% fixed rate and credit her account with the full amount of the finance charges imposed earlier.

Agnes Holmes
Montgomery, Alabama

Chase **Credit Limit: $5,000**

Transaction Period	Interest Rate	Purchases	Applicable Payment	Amount Paid Toward: Interest and Fees*	Amount Paid Toward: Reduction in Principal	Balance after Payment
Sept. '06	18.99%	$0.00	$0.00	$0.00	$0.00	$0.00
Oct. '06	18.99%	$2,946.47	$100.00	$0.00	$100.00	$2,846.47
Nov '06	18.99%	$1,253.95	$125.00	$79.86	$45.14	$4,055.28
Dec '06	18.99%	$715.64	$125.00	$76.77	$48.23	$4,722.69
Jan '07	18.99%	$0.00	$125.00	$77.37	$47.63	$4,675.06
Feb '07	18.99%	$0.00	$125.00	$69.19	$55.81	$4,619.25
March '07	18.99%	$0.00	$125.00	$75.75	$49.25	$4,570.00
April '07	18.99%	$0.00	$120.00	$72.47	$47.53	$4,522.47
May '07	29.99%	$0.00	$165.00	$117.74	$47.26	$4,475.21
June '07	29.99%	$0.00	$160.00	$112.75	$47.25	$4,427.96
July '07	29.99%	$0.00	$160.00	$115.54	$44.46	$4,383.50
August '07	29.99%	$0.00	$160.00	$114.38	$45.62	$4,337.88
Sept. '07	29.99%	$0.00	$155.00	$109.55	$45.45	$4,292.43
Oct. '07	12.99%**	$0.00	***	$45.83	***	***

* No late or over-the-limit fees were charged.
** Statement lists the 12.99% as a "promotional" rate and 29.99% as interest rate applicable to purchases.
*** Chase will refund past interest charges on the November billing statement. This statement was not available at the time of this analysis.

Case History No. 6: Linda Fox
Circleville, Ohio

Linda Fox is a working grandmother who has been employed by the same large company for 25 years. She has had a Capital One credit card for over ten years, has never made a late payment or exceeded her credit limit, and always paid at least the minimum amount due. In April 2007, Capital One increased her interest rate from 8% to 13%.

Ms. Fox first noticed the increase when she saw her May billing statement. She called the bank, which said she had failed to take advantage of a change-in-term notice mailed earlier that would have allowed her to reject the increase, close her account, and pay her debt at the old rate. Ms. Fox explained that she had never received the notice. Capital One declined to reduce the rate and told her that her account could be placed in a "closing status" but would still be subject to the new 13% interest rate.

When questioned by the Subcommittee, Capital One explained that it had increased Ms. Fox's interest rate, not because she was at fault, but because the bank had decided to pass on its borrowing costs to its cardholders. Capital One's automated system had selected Ms. Fox's account, because it had not had an interest rate increase in three years and had what the bank characterized as a "below market" interest rate. She was one of many Capital One accounts selected for an interest rate increase.

Capital One applied the increased interest rate to Ms. Fox's existing credit card debt. In January 2007, before the increase, out of her $600 payment, about $130 went to pay for finance charges. In June 2007, after the increase, out of her $600 payment, about $247 went to pay for finance charges, almost double the previous amount.

In November 2007, after Ms. Fox complained, Capital One agreed to allow her, beginning in her December billing statement, to close her account and repay her debt at the prior rate of 8%. Capital One also credited her account with the excess finance charges imposed earlier.

Linda Fox
Circleville, Ohio

Capital One **Credit Limit: $20,000**

Transaction Period	Interest Rate	Purchases	Applicable Payment	Amount Paid Toward: Interest and Fees*	Amount Paid Toward: Reduction in Principal	Balance after Payment
Oct. '06	7.90%	$163.08	$600.00	$123.38	$476.62	$17,846.54
Nov. '06	7.90%	$381.23	$852.06	$125.53	$726.53	$17,501.24
Dec. '06	7.90%	$1,131.57	$859.96	$122.68	$737.28	$17,895.53
Jan. '07	7.90%	$879.81	$600.00	$129.87	$470.13	$18,305.21
Feb. '07	7.90%	$612.24	$1,021.24	$129.52	$891.72	$18,025.73
March '07	7.90%	$965.91	$825.50	$117.77	$707.73	$18,283.91
April '07	12.90%	$837.11	$837.17	$214.60	$622.57	$18,498.45
May '07	12.90%	$377.19	$800.00	$207.09	$592.91	$18,282.73
June '07	12.90%	$0.00	$600.00	$246.86	$353.14	$17,929.59
July '07	12.90%	$0.00	$2,000.00	$201.53	$1,798.47	$16,131.12
August '07	12.90%	$0.00	$600.00	$186.14	$413.86	$15,717.26
Sept. '07	12.90%	$0.00	$500.00	$176.95	$323.05	$15,394.21
Oct. '07	12.90%	$0.00	$500.00	$167.25	$744.70**	$14,649.51
Nov. '07	7.90%	$0.00	***	$104.94	***	***

*No late or over-the-limit fees were charged.
**Includes $411.95 refunded by bank for past interest charges under 12.90% rate.
***Ms. Fox will pay her bill in December. The December billing statement was not available at the time of this analysis.

Case History No. 7: Marjorie Hancock
Arlington, Massachusetts

Marjorie Hancock is a retired financial director from an engineering firm and the mother of three grown children. She has four credit cards with Bank of America, one which she stopped using in May in order to pay down the debt; a second card she stopped using years ago and on which she has made steady payments to reduce the debt; a third which she uses occasionally; and a fourth which her son, a student enrolled in graduate school, uses for his school expenses as an authorized signer. In August, Bank of America increased the interest rate on the first credit card from 19% to 27%.

Ms. Hancock has never made a late payment or exceeded the limit on the card, and always paid more than the minimum amount due. She owed about $8,200 on that card, well below its credit limit of $15,000. She owed sums on the other three cards as well, but all were below their credit limit and all were being paid off in compliance with the terms of each card.

When Ms. Hancock called Bank of America to ask why her interest rate had increased, she was told that her credit card "utilization" was too high, even though her balances had not substantially changed in over a year. She was also told that she had "serious delinquencies" on cards with other companies, even though she is current on all her credit card obligations. When questioned by the Subcommittee, Bank of America explained that Ms. Hancock's credit score had been reduced by a credit bureau which, in turn, had caused the bank's automated system to impose a higher interest rate on the card in question. The bank did not know what specific events had triggered the lower score, other than the general reasons provided by the credit bureau and given to Ms. Hancock.

Ms. Hancock's four Bank of America credit cards now carry interest rates of 8%, 14%, 19%, and 27%, even though she poses the same credit risk on all four. Bank of America has declined to restore her prior rate on the credit card bearing the highest rate. At the same time, Bank of America regularly sends Ms. Hancock credit card checks which would allow her to incur additional debt.

Bank of America applied the 27% interest rate to Ms. Hancock's existing debt on her credit card, which substantially increased her finance charges. In July 2007, for example, when her interest rate was 19%, out of a $230 payment on the card, about $128 went to pay for finance charges. In August, after the increase to 27%, out of a payment of $300, about $200 went to finance charges, an increase of more than 50%.

Ms. Hancock noted that, in a telephone call, Bank of America personnel claimed the bank was "helping" her by increasing her interest rate. She wrote to the bank that it would help her more if the bank had lowered rather than increased her interest rate.

Marjorie Hancock
Arlington, Massachusetts

Bank of America **Credit Limit: $15,000**

Transaction Period	Interest Rate	Purchases	Applicable Payment	Amount Paid Toward: Interest and Fees*	Amount Paid Toward: Reduction in Principal	Balance after Payment
Nov. '06	18.24%	$140.10	$231.00	$132.13	$98.87	$8,857.17
Dec. '06	18.24%	$336.83	$250.00	$143.84	$106.16	$9,087.84
Jan. '07	18.24%	$176.38	$250.00	$147.11	$102.89	$9,161.33
Feb. '07	18.24%	$0.00	$300.00	$131.08	$168.92	$8,992.41
March '07	18.24%	$0.00	$270.00	$147.95	$122.05	$8,870.36
April '07	18.24%	$4.95	$235.00	$132.07	$102.93	$8,772.38
May '07	18.24%	$0.00	$500.00	$134.84	$365.16	$8,407.22
June '07	18.24%	$0.00	$225.00	$140.29	$84.71	$8,322.51
July '07	18.24%	$0.00	$230.00	$128.06	$101.94	$8,220.57
August '07	26.99%	$0.00	$300.00	$200.22	$99.78	$8,120.79
Sept. '07	26.99%	$0.00	$1,000.00	$181.12	$818.88	$7,301.91
Oct. '07	26.99%	$0.00	**	$173.03	**	**

*No late or over-the-limit fees were charged.
**The November billing statement was not available at the time of this analysis.

Case History No. 8: Donna Bernard
Dallas, Texas

Donna Bernard is an administrative assistant at a large corporation. She has multiple credit cards with substantial balances, keeps careful track of the amounts she owes, and pays her bills on time. She has not used one of her credit cards, from Chase, to make purchases since 2001, instead making steady monthly payments to reduce a debt of about $7,900. She has never made a late payment or exceeded her credit limit on the card, and always paid at least the minimum amount due. In December 2006, Chase nearly doubled her interest rate on the card, from about 15% to 29%.

When Ms. Bernard contacted Chase to find out why, she was told that the increase was because her "total bankcard balances have grown too fast," she had too many credit cards with high balances, and her credit card balances "are too high compared to total credit limits." Chase had apparently determined that these factors outweighed her history of making regular, on-time payments for years to reduce her Chase debt. When questioned by the Subcommittee, Chase explained further that a special automated initiative at the bank to "clean up" closed credit card accounts had flagged Ms. Bernard's account due to a low credit score provided by a credit bureau and imposed the December rate increase. Chase did not know what specific events triggered the lower score, other than the general reasons provided by the credit bureau which were given to Ms. Bernard.

Ms. Bernard was also told that she had missed the deadline to reject the increase, close her account, and pay the debt at the old rate. In discussing the matter, Ms. Bernard learned from bank personnel that the bank had closed her account to new purchases years earlier. Despite having closed her account in 2001, Chase declined to restore her prior interest rate, informing Ms. Bernard that closed accounts are not protected from interest rate increases.

Chase applied the 29% interest rate to the existing debt in her closed account, substantially increasing her monthly finance charges. In October 2006, for example, under the 15% rate, out of a $165 payment, about $100 went to pay for finance charges and $65 to pay down the principal debt. In January 2007, after the increase, out of a larger payment of $200, $199.75 went to pay finance charges, and just 25 cents went to pay down the principal debt.

Chase applied the new interest rate to Ms. Bernard's account for seven months. After she contacted the Subcommittee, Chase restored her 15% interest rate and credited her account with nearly $600 in interest charges imposed earlier. Chase set up the 15% as a "promotional rate" that would be replaced with a 29% rate if Ms. Bernard were to be late making a single payment.

Over the last twelve months, Ms. Bernard made payments on her Chase credit card totaling about $2,300. Despite this year of steady payments, her October 2006 debt of about $7,900 fell by only about $900 to just under $7,000.

Donna Bernard
Dallas, Texas

Chase **Credit Limit: $12,150**

Transaction Period	Interest Rate	Purchases	Applicable Payment	Amount Paid Toward: Interest and Fees*	Amount Paid Toward: Reduction in Principal	Balance after Payment
Oct. '06	14.99%	$0.00	$165.00	$100.03	$64.97	$7,896.58
Nov. '06	14.99%	$0.00	$159.00	$102.39	$56.61	$7,839.97
Dec. '06	29.24%	$0.00	$194.00	$193.73	$0.27	$7,839.70
Jan. '07	29.24%	$0.00	$200.00	$199.75	$0.25	$7,839.45
Feb. '07	29.24%	$0.00	$200.00	$199.34	$0.66	$7,838.79
March '07	29.24%	$0.00	$180.00	$179.55	$0.45	$7,838.34
April '07	29.24%	$0.00	$199.00	$198.79	$0.21	$7,838.13
May '07	29.24%	$0.00	$193.00	$192.54	$0.46	$7,837.67
June '07	29.24%	$0.00	$201.00	$200.31	$0.69	$7,836.98
July '07	14.99%**	$0.00	$146.00	$87.27***	$650.37****	$7,186.61
August '07	14.99%**	$0.00	$166.00	$93.24***	$72.76	$7,113.85
Sept. '07	14.99%**	$0.00	$164.00	$92.33***	$71.67	$7,042.18
Oct. '07	14.99%**	$0.00	$159.00	$88.33***	$70.67	$6,971.51

*No late or over-the-limit fees were charged.
**Statement lists the 14.99% as a "promotional" rate and 29.24% as the interest rate applicable to purchases.
***For July, figure includes $1.97 at 29.24% rate and $85.30 at 14.99% rate; for August through October, figures include $0.05 at 29.24% rate and remainder at 14.99%.
****Includes $591.64 refunded by bank for past interest charges under 29.24% rate.

Summary of Janet Hard Account

(November 2006 to October 2007)

Owed as of October 2006:	$8,330
Total interest charges:	$1,900
Total purchases:	$100
	$10,330
Total payments:	$2,400
Owed as of October 2007:	$7,980
Total reduction in debt after one year:	$350

Source: Discover credit card statements. Figures have been rounded.
Prepared by U.S. Senate Permanent Subcommittee on Investigations, December 2007

Permanent Subcommittee on Investigations
EXHIBIT #2a

Summary of Millard Glasshof Account

(November 2006 to October 2007)

Owed as of October 2006:	$4,800
Total interest charges:	$1,100
Total fees:	$200
Total purchases:	$0
	$6,100
Total payments:	$1,300
Owed as of October 2007:	$4,800
Total reduction in debt after one year:	$0

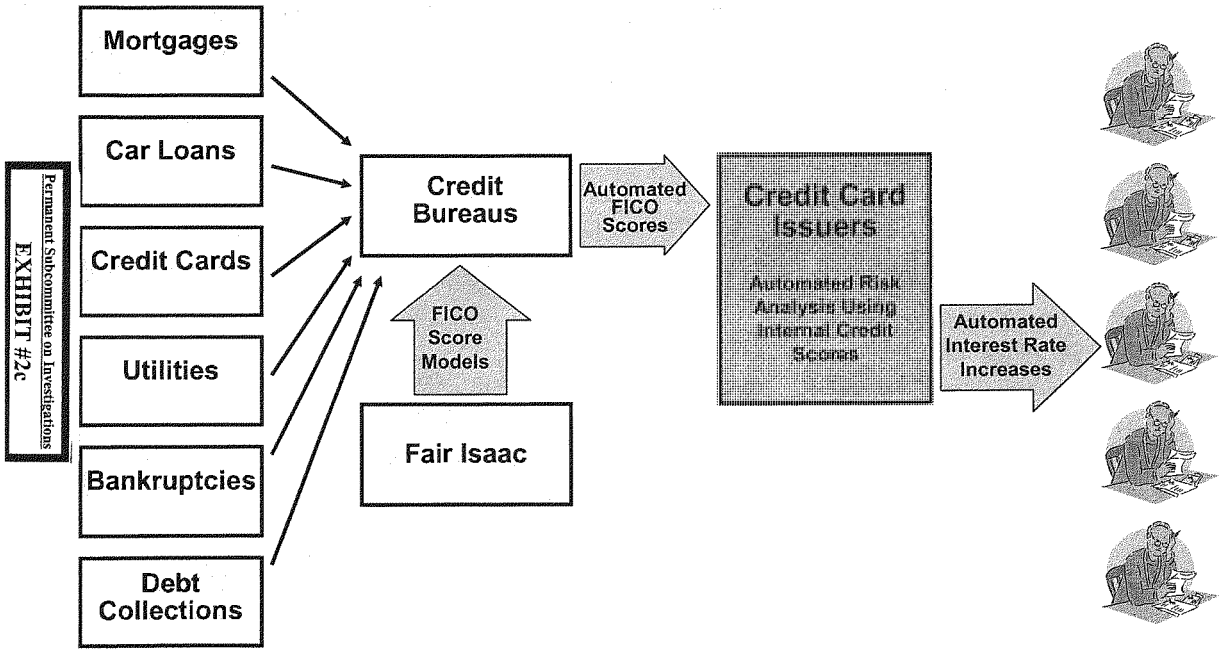
Source: Chase credit card statements. Figures have been rounded.
Prepared by U.S. Senate Permanent Subcommittee on Investigations, December 2007

Permanent Subcommittee on Investigations
EXHIBIT #2b

Permanent Subcommittee on Investigations

EXHIBIT #2c

Automated Repricing of Credit Card Interest Rates



Prepared by the Permanent Subcommittee on Investigations, December 2007

Disclosures by Credit Card Issuers on Their Right to Change Credit Card Terms

Bank of America (Online credit card application; viewed on 11/26/07)	[At the beginning of "Terms and Conditions] "All account terms are governed by the Credit Card Agreement. Account and Agreement terms are not guaranteed for any period of time; all terms, including the APRs and fees, may change in accordance with the Agreement and applicable law. We may change them based on information in your credit report, market conditions, business strategies, or for any reason."
Capital One (Online credit card application; viewed on 11/26/07)	[Second question after rates and fees table] **"Can You Increase My APRs?** We will not increase your introductory APRs for any reason before the end of the introductory period. Your variable non-introductory APRs can go up or down each quarter as the Prime rate goes up or down. Your APRs can increase to the Default APR if your payment is received late (3 or more days after your payment due date) twice within any 12 billing periods. If we increase your APRs for late payments, we will return you to your prior APRs if you make at least the minimum payment on time for 12 consecutive billing periods. If we change your non-introductory APRs for reasons other than when the Prime changes or you paid late as disclosed above, we will notify you in writing of your options in advance, including the right to opt out. **What About Any Other Terms Of My Account?** We may change any other terms of your account, other than APRs, at any time. If we change any of these terms, we will notify you in advance of your options in writing, including the right to opt out of certain changes. **Do You Engage In Universal Default?** We do not engage in a practice known as "universal default." Universal default permits a credit card company to increase your APRs simply because you fail to make a payment on a loan with another lender or your credit history contains other negative information."
Discover (2006 Cardmember Agreement provided to Subcommittee on 2/27/07)	[on page 10 of a 12 page document] "We may change any term or part of this Agreement, including, but not limited to, any finance charge rate, fee or method of computing any balance upon which the finance charge rate is assessed, or add any new term or part to this Agreement. If required by law we will send you a written or electronically delivered notice at least 15 days before the change is to become effective. We may apply any such change to the outstanding balance of your Account on the effective date of the change and to new charges made after that date. You may be offered the opportunity to reject some of the changes, and if you do, you must notify us in writing or electronically within 15 days after the mailing of the notice of change at the address provided in the notice of change, in which case your Account will be closed and you must pay us the balance that you owe us under the existing term of the unchanged Agreement. Otherwise, you will have agreed to the changes in the notice. Use of your Account after the effective date of the change will be deemed acceptance of the new terms as of such effective date, even if you previously notified us that you did not agree to the change. We may also change any term of any product, service or benefit offered in connection with your Account. We will notify you as required by law or by the terms of the product, service, or benefit."

Prepared by U.S. Subcommittee on Investigations, December 2007

Permanent Subcommittee on Investigations

EXHIBIT #3

Sample of Reasons Provided by Credit Bureaus and Credit Card Issuers to Explain Lower Credit Scores

- Bankcard balance grew too fast compared to credit limit & time on file
- Total available credit on bankcards is too low
- Total available credit on satisfactory bankcards is too low
- Too many open bankcards with high balances
- Too many revolving accounts with high balances
- Total bankcards balances are too high compared to credit limits
- Balances on bankcard accounts are too high
- One or more accounts have high balances compared to credit limits
- Time since last past due is too short
- The number of bankcards opened has grown too fast
- One or more open bankcards with high balances
- Excessive utilization of revolving accounts
- Serious delinquencies on revolving accounts
- High utilization on revolving accounts
- High amounts owed on revolving accounts
- Recent past due(s)
- Derogatory public record or collection filed
- Level of delinquency on accounts

Sources: Bank of America, Chase Bank, and Discover
Prepared by US Senate Permanent Subcommittee on Investigations, December 2007

Permanent Subcommittee on Investigations
EXHIBIT #4

Regarding your credit card account ending in 9999

Dear Cardmember,

At Discover® Card, it is important to us that you receive clear and timely information whenever there is a change to your account. Please note that for billing periods ending after June 1, 2007, your standard Annual Percentage Rate (APR) for purchases and cash advances will change, as explained below.

IMPORTANT INFORMATION ABOUT CHANGES TO YOUR STANDARD RATES FOR PURCHASES AND CASH ADVANCES

Effective for billing periods ending after June 1, 2007, we are changing the standard Annual Percentage Rate (APR) applicable to purchases and cash advances. Your current rates are indicated on the front of the most recent billing statement you have received from us. Your standard purchase **APR** will change to a higher fixed rate of 99.99%. In addition, your **APR** for cash advances will change to a fixed rate of 99.99%. These new Annual Percentage Rates will also apply to existing purchase and cash advance balances. If an introductory or promotional rate on purchases applies to your Account, you will continue to receive that rate for the time specified in the offer, subject to the Default Rate Plan section of the Cardmember Agreement.

As a result of our normal Account review procedures, we have increased the APRs on your Account for the following reason(s):

Derogatory public record or collection filed
Level of delinquency on accouts
Too many accounts with balances

Our decision was based in part on information obtained in a report from a consumer reporting agency. Please be advised that the agency played no part in our decision and therefore will be unable to provide you with further information about this decision. However, you do have a right under the Fair Credit Reporting Act to know the information contained in your credit file at the agency. You can obtain a free copy of your credit report from the agency if you request it within 60 days of your receipt of this letter. If you find any inaccurate or incomplete information in the report, you have the right to dispute it with the agency. You can find out about the information contained in your report by contacting TransUnion Corporation, PO Box 1000, Chester, PA 19022-1000; Phone: 1-800-888-4213; Web site: transunion.com/direct

If you do not agree to this change, you must notify us in writing by April 25, 2007 at the following address: Discover Card, PO Box 30951, Salt Lake City, UT 84130-0951. Your notice should include your name, address, telephone number and Account Number(s) and should not be sent with any other correspondence. If you notify us, we will close your Account and you will pay us the balance that you owe us under the current terms of the Agreement. Note that the changes described in this notice will not apply to your Account if your Account is closed by April 25, 2007 or if your applicable APR is higher than the new rate. Use of your Account on or after April 26, 2007 means that you accept this change even if you previously notified us that you did not agree to this change.

FEDERAL EQUAL CREDIT OPPORTUNITY ACT NOTICE

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning Discover Bank is the FDIC Consumer Response Center, 2345 Grand Boulevard, Suite 100, Kansas City, MO 64108.

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FR0507FPCWR

DISCOVER CARD

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RBR0507

Permanent Subcommittee on Investigations
EXHIBIT #5

Cardmember Service
P.O. Box 15298
Wilmington, DE 19850-5298
(800) 436-7937
Visit us online at www.chase.com/creditcards

CHASE

August 14, 2007

00470 RCS 001 001 22907 - NNNNNNNNNNNN
Millard C Glasshof

Redacted by the Permanent Subcommittee on Investigations

Important information is provided below regarding your account.

RE: Your account ending in Redacted by the Permanent Subcommittee on Investigations

Dear Millard C Glasshof:

As your credit card company, we value you as a customer and want to provide you with timely information about your account.

In your December 2006 billing statement you received a Change in Terms notice advising of a change in your Cardmember Agreement, which may result in a higher minimum payment requirement. This change is being made to comply with the enhanced regulatory standards and may enable you to reduce your principal balance more quickly.

Effective with your SEPTEMBER 2007 billing statement, if your New Balance is $10.00 or less, your minimum payment will be the amount of the New Balance. Otherwise, your minimum payment due calculation will be the greater of the following: $10.00, 2% of the New Balance, or the sum of 1% of the New Balance, billed interest, and any billed late fees. Any amounts that are past due or over your credit limit may be added to this calculation.

As an example of how this change may affect you, please consider the following:

- Under your current required minimum payment, if your last statement balance was $4,923.20, the minimum payment due would have been $111.00 if there were no over-limit or past due amounts included in the minimum payment.
- Under the new required minimum payment, the minimum payment due for that statement would have been $159.00.

If your minimum payment presents a difficulty, please contact us at the toll-free number noted above. We may have options available to address your concerns. For your convenience, we are available 24 hours a day to serve you.

Sincerely,

Cardmember Service

Permanent Subcommittee on Investigations
EXHIBIT #6

FIA CARD SERVICES™
www.aanetaccess.com

BONNIE RUSHING

Redacted by the Permanent Subcommittee on Investigations

May 09, 2007

Account No. Redacted by the Permanent Subcommittee on Investigations

Dear Bonnie Rushing,

You recently asked to reject the change in terms on the above-referenced FIA Card Services account. The notification regarding the change in terms indicated that we had to receive your written rejection by a specific date. Unfortunately, your written rejection was received after that date. Therefore, the change may take effect.

However, as you requested, the account has been closed. If you have an outstanding balance, you will continue to receive monthly statements until it has been paid in full. The national reporting agencies will be notified of the change within the next 30 days.

Please destroy any credit cards by cutting through the magnetic stripe and destroy any checks associated with this account. Also, please notify any merchants that have preauthorization to charge the account for products and services (such as any Internet access, health club memberships, and subscriptions) that the account is closed.

If you have any questions, please call 1-800-635-0581. We are at your service 24 hours a day, seven days a week.

Sincerely,

Gail Knapp

Customer Marketing department

P.S. For up-to-the-minute account information, please visit www.aanetaccess.com.

P49 REJ 1.1 05-07 07-130-00128 - 3334

Permanent Subcommittee on Investigations
EXHIBIT #7a

RUSHING

Redacted by the Permanent Subcommittee on Investigations

May 15, 2007

CUSTOMER
MAY 21 2007
GF
CORRESPONDENCE

Gail Knapp, Customer Marketing Department
FIA Card Services
PO Box 15128
Wilmington, DE 19850-5128

Re: Account: Redacted by the Permanent Subcommittee on Investigations

I have received your letter dated May 9, 2007 (copy enclosed) advising that FIA Card Services has closed my account and that it will not convert the interest rate to the previous 7.9% rate prior to the change in terms notice that I did not receive.

In your letter you state that you had to receive the written rejection by a specific date, but do not specify the date; nor do you offer to send me a copy of the letter that I did not receive. Pursuant to Florida State Law (Florida's Deceptive and Unfair Trade Practices Act) I am objecting to the business practices of FIA Card Services with regard to its handling of my account as being unfair, unconscionable and deceptive trade practices. A copy of the letter that I sent to the Office of the Attorney General of Florida is enclosed for your information.

It is not reasonable for FIA Card Services, or anyone, to assume that if I or any reasonable consumer received a change in terms notice that the interest rate on an account was to be changed from 7.9% to 22.9% I would not have responded within the time given in the letter. It is also not reasonable for FIA Card Services to not have offered to send the notification letter to me and to have offered me a chance to respond when I knew or should have known of the change of terms, which was when I received my first statement with the revised interest rate.

I am still expecting that FIA Card Services to reverse the change in terms on this account. To do otherwise is unreasonable, unfair and constitutes engaging in unconscionable trade practices against a consumer.

Sincerely,

Bonnie Rushing

cc: Office of the Attorney General, Bill McCullom

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Permanent Subcommittee on Investigations
EXHIBIT #7b

RUSHING

Redacted by the
Permanent Subcommittee
on Investigations

April 25, 2007

Office of the Attorney General, Bill McCollum
State of Florida
PL-01, The Capitol
Tallahassee, Florida 32399-1050

Re: Bank of America; Unfair Trade Practices

I am writing to ask that your office investigate an issue with Bank of America (AAA Financial Services, "AAA") with regard to what may be an unfair and unconscionable trade practice.

I opened my AAA account in May 2003 and the account is in good standing as of this date. I have never had a late payment. The current interest rate of 7.9% was established by the cardholder agreement in 2003. AAA attempted to change the interest rate on my account in 2004 by sending notification of a change in terms. I rejected that change by letter to the company (copy enclosed). The rate on my account remained at 7.9 percent.

On Saturday, April 21, 2007, I received my statement from AAA that showed that the interest on my account had been adjusted to 22.90% (copy enclosed). I called AAA and inquired about the change in rate and was advised that a notification had been previously sent. I advised that I had not received any notification and was rejecting the change in terms. The representative, "Claudette", advised that it did not matter whether or not I received the notification, the terms of my account had been changed and I did not have any recourse at this point other than to (i) accept the increased interest rate, (ii) pay off the account with another credit card, or (iii) disclose my financial information to her so that AAA could renegotiate another (higher than 7.9%) interest rate on the account.

Claudette pressed me very "heavily" to renegotiate the interest rate of this account or transfer the balance of this account to another credit card. I felt under a great deal of pressure during our entire conversation.

I advised that the issue was that I had not received the notification of the change of terms until I had received my April statement and that upon receipt of notification I was contacting the company and advising that I was rejecting the change. It was not that I wanted to renegotiate the interest rate. I then advised that I wanted to close the account, at the 7.9% interest rate, as was my right, in order that this matter be finally resolved. Claudette said that was not an option.

Permanent Subcommittee on Investigations
EXHIBIT #7c

At this point I advised that I would need to discuss this issue with a supervisor. I was told that a supervisor would contact me. I left my telephone number.

I received a call from Walter Watson, a supervisor with AAA, on April 23rd. Mr. Watson said he wanted to hear "my side of the story." I told him that I never received the notification of change of terms until I received my April statement on April 21st; that I had called at that time to reject the change in terms and was told that I could not. Mr. Watson advised that whether or not I received the notice did not matter. It was the company's position that the notice had been sent; that the terms had been changed and I could not at this time reject the changes. The only thing he would do was renegotiate the interest rate to a lower than 22.9% (but higher than 7.9%) interest rate on the account. Mr. Watson said that unless I let AAA renegotiate the interest rate, the rate would stay at 22.9 percent. I was again pressured to renegotiate the interest rate on this account.

I told Mr. Watson that I was aware of my rights as a consumer, that I had rejected the change in terms in 2004 when I had received a prior notification. I also advised that I just wanted to be reasonable and close the account at the 7.9% interest rate, pay off the balance, and never use the account again. Mr. Watson rejected that compromise. He indicated that AAA need do nothing it did not want to do.

I inquired of another of my credit card/bank companies. This company told me that if I had called immediately upon receipt of the first statement after the change of interest rate and advised that I had not received the notification of change of terms they would have (i) sent again the notice of change of terms; (ii) given me an opportunity to respond to the change in terms; and (iii) allowed me to have closed the account under the interest rate, prior to the change. *AAA never offered to re-send the notice of change in terms.*

Based on this experience with AAA I believe that: (i) it is attempting to coerce me into renegotiating the interest rate on my loan under circumstances which are unfair; (ii) it is violating my rights as a consumer by not sending to me the notice of change in terms after I notified them when I knew (or could have known) of the change in terms on my account, so that I could have the opportunity to reject the change in the interest rate on this account. I am asking that your office investigate AAA under Florida's Deceptive and Unfair Trade Practices Act. Thank you.

Sincerely,

Bonnie Rushing

cc: AAA Financial Services
Enclosures

Comptroller of the Currency
Administrator of National Banks

June 5, 2007

Bonnie Rushing

Redacted by the
Permanent Subcommittee
on Investigations

Re: Case#: 702047 / FIA CARD SERVICES, NATIONAL ASSOCIATION

Dear Ms. Rushing:

The Office of the Comptroller of the Currency (OCC) received your correspondence, which was forwarded by the Florida Attorney General, on your behalf.

Upon review of the correspondence, we find we need the information noted below in order to thoroughly address your concern(s). Upon receipt, we will continue our review.

The OCC will only act on complaints which are submitted in writing and signed by the owner of the account(s) in question. As we noted only your initials were provided, we need you to provide your full signature on the enclosed complaint correspondence.

Provide your February and March 2007 billing statements so we may compare the disclosed interest rates.

If we do not hear from you within 30 calendar days, we will assume you no longer require our assistance and close our file. Should you have any questions, please do not hesitate to contact our office at the address below.

Sincerely,

Debra Baker

Debra Baker
Customer Assistance Group
Customer Service Manager

cc: Florida Attorney General

Customer Assistance Group, 1301 McKinney Street, Suite 3450, Houston, Texas 77010
Phone: (800) 613-6743, FAX: (713) 336-4301

Permanent Subcommittee on Investigations
EXHIBIT #7d

Bank of America
Office of the Chairman
AZ9-503-02-05
PO Box 52302
Phoenix, AZ 85072-2302

To: Office of the Comptroller of the Currency

From:	Charles Harris, Executive Relations Officer Office of the Chairman	**Phone:** **Fax:**	Redacted by the Permanent Subcommittee on Investigations
Customer Name:	Bonnie Rushing	**OCC Case #:**	702047
Address:		**Date:**	June 27, 2007
Home Phone: **Work Phone:** **Acct # ending:**	Redacted by the Permanent Subcommittee on Investigations		

We received your inquiry on June 18, 2007, regarding Ms. Rushing's complaint. We addressed this issue directly with Ms. Rushing via phone on June 25, 2007. Here is an overview of our resolution:

Customer's Complaint
Ms. Rushing stated that she learned that her Annual Percentage Rate (APR) had been increased from 7.9% to 22.9% when she reviewed her April 13, 2007 monthly billing statement. She stated that she had not received a notification that the APR was going to be increased. She further stated that she contacted the bank to reject the change in terms but was told that her only recourse was to negotiate a lower APR or pay off the account. Ms. Rushing stated she feels that the bank is being unfair by trying to coerce her into renegotiating the APR on her account when she did not receive a notification of the change in terms.

Customer's Request
Ms. Rushing requested that her APR be returned to 7.9% and that she be refunded the difference of Finance Charges from the higher APR that she was charged.

Bank of America Resolution
I contacted Ms. Rushing and explained to her that Bank of America is the issuer of her credit card, and manages her account for AAA Financial Services. I further explained that while she referred to the individuals she spoke with as associates with AAA, she was actually speaking with Bank of America associates.

I explained to Ms. Rushing that in January 2007, a notification of a change to her account's terms and conditions was sent which directly affected the increasing of the margin her Annual Percentage Rate (APR) formula. Changes in the terms of an account occur periodically as part of standard business practice in the credit card industry. Like other issuers, we are constantly reviewing our portfolio to ensure that we are conducting business in a way that allows us to remain competitive. We view the amendment to the terms of your account as a reasonable adjustment in a challenging marketplace that helps us to continue providing customers with competitive, high quality products.

Permanent Subcommittee on Investigations
EXHIBIT #7e

Bank of America has a policy and procedure to monitor cardholder accounts and manage credit risk. Per the Cardholder Agreement which governs the use of your account, Bank of America may periodically review your credit standing by obtaining information from credit reporting agencies and others concerning your account. Our evaluation takes into consideration internal information, as well as, updated credit report information we have received regarding the primary cardholder.

The deadline to reject the APR change was March 1, 2007. Because we value Ms. Rushing as a customer, we complied with her request to reinstate the APR to a fixed rate of 7.99% for Balance Transfers, Purchases and other balances on the account. All Automated Teller Machine and other Cash Advances will be at 21.99%. We also credited Ms. Rushing's account $610.68 for Finance Charges on June 7, 2007.

I explained to Ms. Rushing that her other Bank of America is also subject to change in terms notifications. Ms. Rushing stated that she was satisfied with our resolution to return her APR to 7.9% and refund the Finance Charges. She also confirmed that she wishes the account to remain closed.

To accommodate your request for an additional copy of the notification mailed in June 2007, please see the below reproduction:

June 2007

Dear Customer:

The following information pertains to your account ending in Redacted by the Permanent Subcommittee on Investigations

Below is an Amendment to your Credit Card Agreement. **You do not have to accept this Amendment. The steps you must take to reject the Amendment are described below.** You must act promptly to reject this Amendment, so please read it now.

IMPORTANT NOTICE OF CHANGE IN TERMS

This document contains important information regarding changes to the terms of your Credit Card Agreement ("Agreement") with us. Please read this document carefully and keep it with your Agreement. Except as amended below, the terms of your Agreement remain in full force and effect. In the event of a conflict, the terms in this Important Notice of Change in Terms ("Notice") will prevail.

ANNUAL PERCENTAGE RATE INCREASE

Summary: We are increasing your Annual Percentage Rates (APRs) for Category A Balance Transfer and Check Cash Advances, Category C Purchases, and Category D Other Balances. **You may reject the APR increase by following the Rejection Instructions described below.** This change will not increase any promotional rates that may currently be applied to your account.

Amendment: Effective as of the first day following your statement Closing Date in July 2007:

- Your margin for Categories A, C and D is increasing to 15.74 percentage points. As of April 30, 2007, the U.S. Prime Rate index was 8.25 percentage points. This currently results in a variable corresponding **ANNUAL PERCENTAGE RATE of 23.99%** (Daily Periodic Rate (DPR) of .065726%). All variable rates are calculated using the Variable Rate Information section of your Credit Card Agreement, as may be amended. These are the Categories for Balance Transfers, Check Cash Advances, Purchases, and Other Balances.

- We are not increasing the APR for Category B Bank and ATM Cash Advances.

Please remember to pay on time and do not exceed your credit limit. Either event can also cause your APR to increase according to the Default Pricing terms of your account.

Rejection Instructions for Annual Percentage Rate Amendment:
If you do not wish to accept this APR increase, you must meet all of the following requirements:

1. Write to us at FIA Card Services, N.A., P.O. Box 15565, Wilmington, DE 19850. Clearly print or type your name and full credit card account number and state that you reject this change. You must give notice in writing; it is not sufficient to telephone us. Send this notice only to the address in this paragraph; do not send it with a payment or any other type of customer service request. **This mailbox is ONLY for rejection of the Annual Percentage Rate Amendment.**

Permanent Subcommittee on Investigations
EXHIBIT #8a

2. Write to us immediately or your rejection will not be effective. We must receive your letter by July 10, 2007.

3. You must not use your account after July 10, 2007. If your account is used at any time after this date, the above changes will apply to your account even if you sent us timely notice rejecting the change. Remember use of your account includes credit card access checks, any overdraft protection transaction and any charges that are billed to your account on a regular basis such as online services and subscriptions.

EQUAL CREDIT OPPORTUNITY NOTICE

As part of the Annual Percentage Rate Amendment decision, we obtained consumer report information, such as your accounts with other creditors, from Trans Union Corp. Trans Union did not make the decision and is unable to provide the specific reasons why the interest rate was increased. You have the right to obtain a free copy of your consumer report from Trans Union within 60 days by calling 1-800-888-4213 and choosing option 2 from the voice response unit, or by writing to Trans Union Corp., P.O. Box 1000, Chester, PA 19022. You also have the right to dispute the accuracy or the completeness of any information in your consumer report.

To learn about your specific credit reasons for the Annual Percentage Rate Amendment, you may contact FIA Card Services, N.A at P.O. Box 15026, Wilmington, DE 19850 or call us at 1-800-421-2110 within 60 days of our providing this notice to you. FIA Card Services, N.A will provide a written response within 30 days after receiving your request.

The federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this bank is the Office of the Comptroller of the Currency, Customer Assistance Group, 1301 McKinney Street, Suite 3450, Houston, TX 77010-9050.

FIA Card Services, N.A., P.O. Box 15026, Wilmington, DE 19850. Please note that if you choose to correspond with us in writing, please provide your full account number and print your name.

Interest Rate	09/07/06 10:28:34 PM	1 of 1

You wrote:

I am currently looking into buying my own home and it would be a big help to me if you would be kind enough to lower my interest rate on this account. I will be slowly but surely paying off my credit cards and it would be helpful if more of my payments could actually go to the principle rather than interest. I have experienced good service with you and I believe you've been among the more reasonable of the banks so I'm hoping you will give me a break and help me pay these debts off faster. I am going on a "debt diet" and will use my cards unless it is absolutely necessary. In the future I will be much more prudent in my spending. I thank you for your kind consideration. Sincerely, Ms. Gayle Corbett

Re: Interest Rate	09/07/06 11:58:32 PM	1 of 1

Customer Service Wrote:

We received your request to lower the Annual Percentage Rate (APR) on your account.

We are happy to inform you that we have lowered your APR for purchases to a variable rate based on the LIBOR rate (currently, 5.33%) plus 5.49% (currently 10.82%).

Thank you for using our website.

Re: Interest Rate	09/08/06 05:32:09 PM	1 of 1

You wrote:

If you were here I would kiss you! haha Thank you so much! This will be a great help to me. I will tell everyone I know that you have fair business practices and hype them to get this card. You are great. Sincerely, Gayle Corbett

Permanent Subcommittee on Investigations

EXHIBIT #8b

Interest Rate 03/03/07 08:44:31 PM **2 of 2**

You wrote:

Would you please be good enough to explain to me why you've raised my interest to 23%? It doesn't appear to me that I went over my limit and I can't think of any other reason the interest would increase that much. Thank you for your anticipated cooperation. Gayle Corbett

Re: Interest Rate 03/04/07 12:01:57 AM **2 of 2**

Customer Service Wrote:

Dear Valued Customer:

Thank you for your inquiry.

Based on a review of your credit history we have reassessed the Annual Percentage Rate on your account.

Thank you for using our website.

Interest Rate 06/17/07 12:57:17 PM **3 of 3**

You wrote:

I'm writing again to ask you to reconsider lowering my present interest rate. I'm don't understand what motivated this increase in the first place and it almost makes me feel that your AT&T Universal wants me to default on this account (although that would be counterproductive for you). I've been a good customer for quite a few years and I have not used your card nor will I use it until it is paid off. So please have a little mercy on me and allow me to work on paying this debt which is very difficult when half of each payment goes to interest. I've also noticed something lately that alarms me... while the balance of my account has decreased my payments each month are increasing. If this trend continues it is fairly certain that at some point I will be unable to meet the payment amount. Thank you for your time and consideration. Gayle R. Corbett

ADV3191.qxp

Segment: Portfolio
Campaign: 0407_PortOps_Reprice_040107
Cell #: n/a
WR #: 90155
Partner: April Reprice
Creative Pkg: Chase Variable Adverse Action
Mail Date: 1

User Name: Inverso, Mark D (Card Services)
Previous User: mkimar
Workstation: WWIL121122
Date Created: 3/13/07 - 3:44 PM
Current Time: 3/20/07 - 11:24 AM
Last Saved: 3/13/07 - 4:36 PM
Document Size: 11.25" x 8.125"
FONTS: B Helvetica Bold, BarCode, Helvetica, TimesNewRomanPS, Zurich BdCn BT, Zurich BdCnR BT, Zurich Cn BT
IMAGES: 05886_logo_78LX_ChaseLogo.tif @ 36%
COLORS: PANTONE Red 032, FPO PCX, FPO Variable, FPO Tech Notes
NOTES:

CHASE

P.O. Box 15298
Wilmington, DE 19850-5298

PRSRT
First-Class Mail
U. S. Postage
PAID
Card Center

IMPORTANT CHANGE IN TERMS NOTICE ENCLOSED — PLEASE READ

Sample A. Sample
1234 Main Street
Any Town, USA 00000

IMPORTANT NOTICE OF CHANGE IN TERMS

RE: Your Chase Account ending in: {VAR1}

This Change in Terms notice contains the details of upcoming changes to your Cardmember Agreement ("agreement"). These changes will be effective the first day of your billing cycle that includes **June 1, 2007**. They will apply to current and future balances on your account.

Please read this notice carefully. If you have questions about it, please contact us at 1-800-436-7919.

Summary of Changes:

- The Purchase APR is a variable rate, currently 32.24%
- The Balance Transfer/Balance Transfer Check APR is a variable rate, currently 32.24%
- The Cash Advance/Cash Advance Check APR is a variable rate, currently 32.24%
- The Cash Advance Fee is 3% of each transaction (minimum $10)
- The Balance Transfer Fee is 3% of each transaction (minimum $5)
- The Minimum Periodic Finance Charge is $1
- The Late Fee is $15 for balances under $100, $29 for balances under $250, and $39 for balances $250 and over
- The Overlimit Fee, Return Payment Fee, and Return Check Fee are $39

Right to Opt Out: You can opt out (not accept) the changes in the APRs. To do so, you must notify us in writing that you do not want to accept these changes. We must receive your notification letter by May 22, 2007. If you choose to write to us, please include your name, address and account number on your letter and mail it to: Cardmember Service, P.O. Box 15098, Wilmington, DE 19850-5098. If you send us such a letter, these changes will not apply. **If you reject these changes, your account will be closed to further use (if it is not already closed).**

The other changes described in this notice will apply to your account automatically. If you were previously notified of any of the changes described in this notice and they are already in effect on your account, those terms will continue to apply. Any other terms on your account not described in this notice also continue to apply. Any promotional APRs remain subject to the terms of the promotional offer. Please note that regardless of whether you opt out of the changes as permitted in this notice, we may send you other change in terms notices in the future to amend your account terms including APRs.

Again, please read the enclosed information, and keep this notice for your records.

Continues on next panel

ADV3191 04/07

1

ADV3191

Permanent Subcommittee on Investigations
EXHIBIT #9a

Continued from previous panel

AMENDMENTS TO YOUR AGREEMENT

Please note that some terms in your agreement or any amendment may appear with initial capital letters or all lower case letters. Such terms have the same meaning. For example, "Account" means the same as "account". **If you have any questions about these amendments, please call us at 1-800-436-7919.**

The following changes will apply unless you choose not to accept them:

ANNUAL PERCENTAGE RATE/APR. The **APR(s)** below amend your **Rates and Fees Table/Table of Interest Charges.**

Purchase **APR**
Current **APR: 32.24%** (minimum 27.99%)
Current Daily Periodic Rate: 0.08833% (minimum 0.07668%)
Variable Rate: The Prime Rate* plus 23.99%

Balance Transfer/Balance Transfer Check **APR**
Current **APR: 32.24%** (minimum 27.99%)
Current Daily Periodic Rate: 0.08833% (minimum 0.07668%)
Variable Rate: The Prime Rate* plus 23.99%

Cash Advance/Cash Advance Check **APR**
Current **APR: 32.24%** (minimum 27.99%)
Current Daily Periodic Rate: 0.08833% (minimum 0.07668%)
Variable Rate: The Prime Rate* plus 23.99%

*Estimated variable **APRs** above are based on the 8.25% Prime Rate on March 15, 2007. The "Prime Rate" is the highest (U.S.) Prime Rate published in the Money Rates section of *The Wall Street Journal* as described in your agreement. These changes to your **APRs** do not affect any higher **APRs** currently applicable to your account.

The following changes will apply automatically:

FINANCE CHARGES AND FEES. The **Finance Charges** and Fees below amend your **Rates and Fees Table/Table of Interest Charges.**

Cash Advance/Cash Advance Check Fee – **Finance Charge**
3% of transaction (minimum fee of $10)

Balance Transfer/Balance Transfer Check Fee – **Finance Charge**
3% of transaction (minimum fee of $5)

Minimum Periodic **Finance Charge** $1
(If any periodic finance charge is payable for a billing cycle)

Late Fee:
$15 if the balance is up to, but not including $100;
$29 if the balance is $100 up to, but not including $250;
$39 if the balance is $250 and over

("balance" means the Previous Balance on the statement that shows the late fee)

Overlimit Fee	$39
Return Payment Fee	$39
Return Check Fee	$39

OTHER NOTICES

You have the right to a written statement of specific reasons why we changed the terms of your agreement. To obtain the statement, please contact Cardmember Service, P.O. Box 15098, Wilmington, DE, 19850-5298, within 60 days of your receipt of this notice. We will send you a written statement of reasons within 30 days of receiving your request for the statement. If you write to us, please include your account number. **If you have any questions about these reasons, please call us at 1-800-436-7919.**

We obtained information from a consumer-reporting agency as a part of our review of your account. Its name, address, and telephone number are shown below.

Experian: P.O. Box 2002, Allen, TX 75013-0036; or 1-888-397-3742.

The above consumer-reporting agency did not make the decision and cannot provide you the specific reasons for our action. You are entitled to a free copy of your consumer report from the above agency if you request it within 60 days of your receipt of this notice. You have the right to dispute the accuracy or completeness of any item in your consumer report.

The federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Office of the Comptroller of the Currency, Customer Assistance Group, 1301 McKinney Street, Suite 3450, Houston, TX 77010-9050.

This notice informs you of changes to your agreement. Please keep it with your original agreement.

If you have questions about information in this notice, please call us at 1-800-436-7919 or write to us at Cardmember Service P.O. Box 15098, Wilmington, DE, 19850-5298.

Helpful Customer Information

It's important to monitor your credit report regularly and identify any factors that may affect your credit rating. Your lenders can periodically review your credit report, and credit ratings can change frequently. So it is important for you to monitor your credit report often and ensure the accuracy of all the information on your report.

Consider these helpful tips for maintaining good credit habits.

Limit the amount of credit applications you file at any given time. Any time you apply for any type of credit, the lender may review your credit report and this "inquiry" can have a negative effect on your credit rating. Avoid filing multiple applications for credit at one time.

Keep your oldest accounts open. Closing old accounts can decrease your credit rating, since the amount of time you've had an account contributes to establishing a good credit history.

Avoid Credit Overload. Although it is generally good to have established credit accounts, having too many accounts may have a negative effect on your credit rating.

Pay at least the minimum amount due on time every month. Even if you choose to pay your balance over a period of months, demonstrating the habit of prompt payment will help you establish a good credit rating.

ADV3191.qxp

Segment: Portfolio
Campaign: 0407_PortOps_Reprice_040107
Cell #: n/a
WR #: 90155
Partner: April Reprice
Creative Pkg: Chase Variable Adverse Action
Mail Date: 1

User Name: Inverso, Mark D (Card Services)
Previous User: mkimaz
Workstation: WWL121122
Date Created: 3/13/07 - 3:44 PM
Current Time: 3/20/07 - 11:24 AM
Last Saved: 3/13/07 - 4:38 PM
Document Size: 11.25" x 8.125"
FONTS: B Helvetica Bold, Helvetica, Zurich BdCn BT, Zurich BdCnIt BT, Zurich Cn BT, Zurich CnIt BT
CONTROLS: FPO PCX, FPO Tech Notes
NOTES:

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Use these Cash Advance Checks* for Extra Cash or Purchases.

These checks are a great way to utilize your credit card account and can be used wherever personal checks are accepted. Carry this check with you, so you'll be prepared for any expense.

- Make a check out to yourself and deposit it into your checking account so you'll have extra cash when you need it.
- Use a check for emergencies, everyday expenses, large bills like home or car repairs, or when you can't use your credit card.
- You can write these checks for any amount – up to the unused portion of your cash access line.

Access your Cash Line Instantly**

You can always **Access Cash Now** through automated teller machines (ATMs) worldwide when you use your credit card and your PIN. **Don't have a PIN – call 1-800-575-5733 and select your PIN now.**

**Daily and transaction system and ATM limits apply. Additional ATM fees may apply.

MKT10821

Must post to your account by the posting date/void date of 08/01/2007 to get the APR stated in your offer

Check Number: 1142

Date: _____
Paid To: _____
Amount $ _____

AGNES E HOLMES 1142

Redacted by Permanent Subcommittee on Investigations

999
DATE _____ 56-1551/441

PAY TO THE ORDER OF _____ $ _____

Void Void Void Void Void DOLLARS

THIS DOCUMENT CONTAINS AN ARTIFICIAL WATERMARK, ABSENCE OF THIS FEATURE WILL INDICATE A COPY

Payable through:
First USA Management Services, Inc., Delaware, OH 43015

209
MEMO _____ SIGNATURE _____

Redacted by Permanent Subcommittee on Investigations

⑆ 1142 ⑆

Must post to your account by the posting date/void date of 08/01/2007 to get the APR stated in your offer

Check Number: 1143

Date: _____
Paid To: _____
Amount $ _____

AGNES E HOLMES 1143

Redacted by Permanent Subcommittee on Investigations

999
DATE _____ 56-1551/441

PAY TO THE ORDER OF _____ $ _____

Void Void Void Void Void DOLLARS

THIS DOCUMENT CONTAINS AN ARTIFICIAL WATERMARK, ABSENCE OF THIS FEATURE WILL INDICATE A COPY

Payable through:
First USA Management Services, Inc., Delaware, OH 43015

209
MEMO _____ SIGNATURE _____

Redacted by Permanent Subcommittee on Investigations

⑆ 1143 ⑆

IMPORTANT INFORMATION:

The use of the attached check or draft will constitute a charge against your credit account.

APR: Your APR for the attached check(s) is the standard rate for Cash Advance Checks on your account.

Transaction Fee Finance Charges: Please see your Cardmember Agreement for any applicable transaction fees.

Right to Decline: If checks are part of this offer, checks that post after the void date disclosed or that are made payable to us or one of our related banks or companies will be declined. Under certain circumstances (for example, if your account is past due or over limit, or if we reasonably believe that you will be unable or unwilling to repay the balance or as described in your Cardmember Agreement), we may decline to process your transaction, in which case you will be notified.

Payment Allocation: We may allocate payments to balances with low APRs (including balances with introductory and promotional APRs) before applying payments to higher APR balances. This means that any promotional period disclosed to you may be shorter based on your payment amounts and APRs on other balances.

Default: Any introductory, promotional, or standard APRs are contingent on your complying with the terms of your account. For example, if your payment to us is not received by the date and time your payment is due; if your account is overlimit; or if a payment to us is not honored by your bank, the introductory, promotional, or standard APR offers may end and the APRs on all balances and new transactions on your account will adjust to the applicable rate and become effective as of the first day of the billing cycle in which the default occurs.

Grace Period: A grace period will not apply to transactions from this offer.

Cardmember Agreement: For further details about terms or conditions on your account, please refer to your Cardmember Agreement.

Other Issue: If you pay any disputed amounts, you may lose your right to dispute them. This offer is not valid if your account has been converted to any other product type, such as to or from a "co brand" or other "rewards" account. If applicable, only checks that we issue for your account are valid. Checks from this offer deposited into your bank account at any bank (including any of our banks) may be subject to a delay in the availability of those funds. Checks used to access your account must be presented to us in paper form. If a check is presented to us electronically, we may not be able to accept it due to certain check processing rules we must adhere to.

Permanent Subcommittee on Investigations

EXHIBIT #9b

DSC10724

Capital One Services, Inc.
1680 Capital One Drive
McLean, VA 22102

November 14, 2007

Ms. Linda Fox

Redacted by
Permanent Subcommittee
on Investigations

Dear Ms. Fox:

This letter is a follow-up to our conversation by telephone on November 9, 2007. As a result of that conversation, I have informed our account management team that you would like to opt out of the rate increase on your Capital One credit card and pay off the balance at your prior interest rate.

I understand that you have been concerned about the changes to your account and I would like to take this opportunity to explain the policy behind the increased interest rate with your Capital One credit card. You have been, and continue to be, an excellent and valued customer of Capital One for nearly 5 years. Let me assure you, this rate increase was not specific to you and was not prompted by any actions on your part.

While credit cards offer convenience and allow financial transactions to proceed rapidly and securely, many people forget that in order for Capital One to lend money it must acquire funds and there are costs associated with obtaining funding. A common example of the cost of money is the Federal Reserve's "federal funds rate", or the "prime rate". Thus, we have certain costs, as well as risks, associated with lending money that we must incorporate into our pricing structure.

Over the course of the last 12 months, the cost and risk associated with credit cards and other lending has increased substantially. Capital One changed the terms on a number of accounts this year due to these changing economic conditions. In your case, you originally had an introductory rate of 0%, which expired in 2003. At that point, your rate went to 7.9%; a rate we have maintained for four years. While some observers have cited the Federal Reserve's recent reductions in the federal funds rate as an indication that the rate environment is declining, the rates Capital One assigned to your account and others over four years ago were based on rates prevailing at that time, which were significantly lower than current rates. By way of example, the prime rate in August 2002 was 4.75 percent. In September 2007, it was 8.03 percent.

We know that our customers have choices when it comes to their credit card company. We value your business and appreciate the long relationship we've had with you as a Capital One customer. While we recognize no one likes to have their interest rates increased, we believe the new rate we offered is highly competitive when compared with other available options.

Permanent Subcommittee on Investigations
EXHIBIT #10

As you requested your account has now been coded to close, and the interest rate has been lowered back to 7.9%. You will see a credit on your account for the difference in interest charges. As long as there are no additional charges to your account it will remain in this status and you will be permitted to pay the balance under the pre-existing terms of the account. The account will officially close once the balance reaches zero.

I hope this response has been helpful. Capital One appreciates your business and we hope to be able to regain it in the future. If you have any questions, please feel free to contact me at any time. I can be reached at the address above, or by e-mail at: Redacted by Permanent Subcommittee on Investigations, or by phone at Redacted by Permanent Subcommittee on Investigations

Sincerely,

Elisabeth A. Bresee
Vice President, Policy Affairs &
Senior Associate General Counsel

The Commonwealth of Massachusetts

Office of the Commissioner of Banks
One South Station
Boston, Massachusetts 02110

DEVAL L. PATRICK
GOVERNOR

TIMOTHY P. MURRAY
LIEUTENANT GOVERNOR

DANIEL O'CONNELL
SECRETARY OF HOUSING AND ECONOMIC DEVELOPMENT

DANIEL C. CRANE
DIRECTOR, OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

STEVEN L. ANTONAKES
COMMISSIONER OF BANKS

October 24, 2007

Marjorie S. Hancock

Redacted by
Permanent Subcommittee
on Investigations

Dear Ms. Hancock:

The Division of Banks ("Division") received your correspondence wherein you describe, in part, your position on banks' ability to export the rate of the state in which they are incorporated.

As a state regulatory authority in one of the most consumer protective states in the country, the Division would prefer to see Massachusetts' consumer protected from any abusive practices. However, on the federal level, it has been repeatedly upheld that banks are able to export rates and, additionally, that federally chartered bank are not necessarily subject to individual state laws. Your first statement in your letter was directly on point, it is ultimately up to the federal law makers to address the issue.

Toward that end, the Federal Reserve Board is presently reviewing its federal regulations that apply to open-end credit, most commonly credit cards. All issues are on the table, but I know that specific attention is being paid to penalty pricing, prior notification before changes, and the consumer's ability to "opt out" of certain changes. Comment on all proposals by the Federal Reserve Board is solicited from all groups: e.g. regulators, industry, and consumers.

Thank you for bringing your concerns to our attention. I hope this information was useful and we do retain all complaints on file.

Sincerely,

Christine Snow

Christine Snow
Chief Director
Compliance and Community Affairs Section

Permanent Subcommittee on Investigations
EXHIBIT #11

CARDMEMBER SERVICE
PO BOX 15298
WILMINGTON, DE 19850-5298
VISIT US ONLINE AT WWW.CARDMEMBERSERVICES.COM

CHASE

000064

January 19, 2007

Important information about your account is noted below.

Donna Bernard

Redacted by the Permanent Subcommittee on Investigations

RE: Redacted by the Permanent Subcommittee on Investigations

Dear Donna Bernard:

As your credit card company, we value your business and want you to be completely satisfied with your credit card account. We appreciate this opportunity to explain the recent change in the annual percentage rate (APR) for your credit card account.

In reviewing your account records, we found that a change in terms notice was sent to you in December, which advised of an upcoming increase in your APR. The notice advised the effective date of the increase, and it explained that you could retain your then-current APR if you requested the closure of your account prior to that effective date. In accordance with those terms, your account was changed to your current APR on the date advised in the notice. We regret that we are unable to return your account to the previous APR.

You received the change in terms for the following reasons:

- Credit report shows total bankcard balances have grown too fast
- Credit report shows too many revolving accounts with high balances
- Total bankcard balances are too high compared to total credit limits

This decision was based in whole or in part on information provided by the reporting agency noted below. Other than providing information, this agency played no part in our decision. If you have questions about our decision, we suggest that you first obtain a copy of your credit report from this reporting agency:

Experian (TRW), P.O. BOX 2002, ALLEN, TX 75013; PHONE: 1-888-397-3742

Under the Fair Credit Reporting Act, you have the right to know the contents contained in your credit file. You can receive a free copy of your credit bureau report from this agency if you request the report within 60 days of the date of your receipt of this letter. We encourage you to obtain and review a copy of this report. If you find that any information contained in the report you receive is inaccurate or incomplete, you have the right to dispute the matter with the reporting agency.

(continued)

Permanent Subcommittee on Investigations
EXHIBIT #12a

If you have any questions about the change in terms, please send a copy of your credit bureau report along with your questions or concerns to us at:

Credit Management Department, P.O. Box 15298, Wilmington, DE 19850-5298

If you do not have a copy of your credit bureau report, we can obtain a copy for you. Using the bank address noted immediately above, please send us your questions and your written permission allowing us to obtain the copy. Please understand that if we request a copy of your credit bureau report, the request will be noted on your report and we will be unable to provide you with the copy.

If you have additional questions, please call us at the toll-free number noted on the back of your credit card. We will be happy to speak with you. For your convenience, we are available 24 hours a day to assist you.

Sincerely,

Suzanne Damerjian
Financial Service Advisor

EQUAL CREDIT OPPORTUNITY ACT NOTICE
The Federal Equal Credit Opportunity act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided that the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The Federal agency that administers compliance with this law concerning this creditor is the Office of the Comptroller of the Currency, Customer Assistance Group, 1301 McKinney Street, Suite 3450, Houston, Texas 77010-9050.

CHASE

Executive Office
Mail Code IL1-6215
2500 Westfield Drive
Elgin, Illinois 60124

July 19, 2007

Donna Bernard

Redacted by the Permanent Subcommittee on Investigations

Re: Chase VISA Account **** ****

Redacted by Permanent Subcommittee on Investigations

Dear Ms. Bernard:

I am writing in response to the concerns expressed to the Card Services Executive Office and our telephone conversation on July 10, 2007. I appreciate this opportunity to assist you on behalf of the Card Services Executive Office.

Thank you for expressing your concerns regarding the Annual Percentage Rate (APR) for the above-referenced account. Customer feedback is always welcome. We appreciate the time you have taken to share these concerns.

As you know, a change-in-terms notice was sent to you in October 2006, indicating that there would be a change in the terms of your account, effective on the first day of your billing statement that included December 1, 2006. This notice informed you that your APR would be increased to a variable rate of Prime + 20.99% for purchases and cash advances. A variable APR is based on the Prime Rate and may increase or decrease as the Prime Rate fluctuates. This notice also explained that if you did not wish to accept the new terms, you could close your account no later than November 23, 2006, and keep the existing terms. Since your account was not closed by this date, the new terms took effect on your account as stated.

Our credit decision was based in whole or in part on information from the consumer credit-reporting agencies. These reporting agencies did not make the credit decision and are unable to provide you with the specific reasons for our decision. At the time our decision was made, a summary of your credit report indicated the following:

- Available credit on account is too low
- Too many accounts with high balances
- Balances on bankcard accounts is too high

You have the right under the Fair Credit Reporting Act to know the information contained in your credit file. If you feel there may be errors in your credit file, you may wish to obtain a copy of your Credit Bureau Report and advise the agency reflecting the error. For your convenience, I have provided the information for the three national Credit Reporting Agencies on page two.

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EXHIBIT #12b

Page 2
Ms. Bernard
July 19, 2007

Experian	Equifax	TransUnion
P.O. Box 2002	P.O. Box 105873	P.O. Box 1000
Allen, TX 75013	Atlanta, GA 30347	Chester, PA 19022
1-800-311-4769	1-800-685-1111	1-800-916-8800
www.experian.com	www.equifax.com	www.transunion.com

As you have requested, we have again reviewed our decision to change the terms of your account. Based on the second evaluation of your credit file, I regret that we are unable to reverse our decision to change the terms for the account due to the reasons on the most recent credit bureau report:

- Total balances are too high when compared to total credit limits
- Credit report shows too many revolving accounts with high balances
- Total bankcard balances are too high compared to total credit limits

However, in the interest of customer service, I have placed the current purchase balance of $7,836.98 at the fixed promotional APR of 14.99% for the life of the loan. In addition, I have issued credits for the last three months of finance charges for the total amount of $591.64. The credits and APR adjustment will be reflected on your July 2007 billing statement.

Ms. Bernard, if you have any additional questions pertaining to this matter, please contact me. My hours are Monday through Friday, from 9:30 a.m. to 6:00 p.m. Central Time.

Sincerely,

Anne N. Batton
Card Services Executive Office
1-888-622-7547, Extension 7090 or 4350
1-847-488-7090

cc: Nancy Stoneman
Vice President

Mark Reuling
Senior Vice President

Credit Report Update Information:
Other than providing the credit-reporting agencies with requests for the changes, deletions, or entries described above, Chase Bank USA, N.A. is not responsible for the actions or omissions of the credit-reporting agencies. Therefore, Chase Bank USA, N.A. cannot guarantee, warrant, or take responsibility for the performance of any credit-reporting agency in changing, deleting, or making entries in relation to any derogatory credit information.

Statement For The Record Of
GAYLE CORBETT
Seattle, Washington
Before The
Senate Permanent Subcommittee on Investigations
Hearing On
Credit Card Practices: Unfair Interest Rate Increases
December 4, 2007

* * *

I've worked in the courthouse in Seattle for close to 25 years. As a single parent I raised a son I'm very proud of. It wasn't easy working and raising a child alone but I did it. I made a commitment to him when he was born that I would do my best for him and I did. When I began working where I am now I made a commitment to them to do my job to the best of my abilities and I do. Any time I make a promise or sign a contract I do my very best to do the right thing. That is how I was taught and that's how I live my life and conduct my business.

Right now I have a lot of debt. Over the past 3 years or so I noticed that the interest rates on all of my cards were going up - a bit of a percent here a bit there. Nearly every month interest rates were raised (each time the prime rate was raised). One night I saw a story on the news about Senator Carl Levin and his investigation into credit card business practices and I kept it in the back of my mind every time I paid my bills.

I was actually doing fine until I got my Citi Bank (AT&T Universal) credit card statement one month and my minimum payment had nearly doubled. I couldn't figure out what had happened...until I looked at my interest rate. It had gone from 10% to 23% within a months' time. When e-mailed them to ask why, they said it was because of a credit review. What exactly does that mean?

During the next few months I noticed that even though I paid at least the minimum each month and the total balance was very slowly going down, the monthly minimum payment was going up! I was so afraid I wouldn't be able to pay all of my bills. Heaven knows my pay wasn't going up 23% and my rent had just been raised 20%. By June I felt so desperate I decided to e-mail Senator Maria Cantwell and while I was typing the e-mail to Senator Cantwell I remembered the news story I saw about Senator Levin's investigation so I included him in the e-mail.

Then a couple of months later I really panicked when Bank of America also increased the interest on my account with them to 23%. Up to this point they had been increasing my interest rate a little each month until they finally just went from 15% to 23%. Again I e-mailed them to ask why but I don't recall ever receiving a response.

At that point I began having a lot of problems with anxiety and getting physically ill...all stress related. I was constantly worrying about what would happen if I couldn't pay my debts. I thought that if all of the credit card interest rates went up to 23% there was no way I could continue meeting my obligations. I was literally sick with worry.

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EXHIBIT #13

Then in September one of the investigators from Senator Levin's office replied to the email I had sent. Just getting that e-mail relieved at least some of the stress I was feeling. Prior to that I felt completely alone and powerless to change what was happening. Since I've been in contact with Senator Levin's office Bank of America has lowered their interest to 9.99%, which has been a great help.

I have also been requesting a lower interest rate from Citi Bank pretty routinely for some time now. When I e-mailed Citi bank in September about the interest rate they finally lowered it from 23% to 19% at the same time raising my credit limit by about $2,500...then in November they lowered the interest rate to 18.52%. In spite of that I'm still paying so much interest that my payments don't take much off of the debt. I recently asked them again to reconsider the interest rate on my account and their reply was: "At this time, your account has the lowest rate available."

Capital One recently raised their interest from 14.9% to 19% but they have since lowered it back to 14.9%. Capital One and Bank of America have at least been reasonable since Senator Levin's investigators got involved. If Citi doesn't follow suit it may be a decade before they are paid off since so much of each payment goes to interest each month.

I am a very private person and the only reason I have 'gone public' with my story is because I believe the way these banks and credit card companies do business is just not right. In 2 of the 3 cards that raised their interest rates so high only one sent me anything prior to raising the rate. The other 2 raises came out of the blue. In spite of the fact that I have always made my payments on time and continue to do so I am given no consideration for that.

I've been talking to people I know about my experiences with the interest rates on credit cards and I'm surprised at the responses I get. Nearly every time I tell my story I hear stories about people they know who have had the same or similar experiences or they themselves are having or have had problems. My son and his wife had a problem and they regularly pay off their balances!

I remember seeing a news story sometime after the 1st of the year about how the banking industry was making "record profits". I know I'm certainly not making record profits. I no longer have anything extra to donate to my favorite charities, put into savings or contribute to my retirement account because whatever extra money I used to have now goes to higher food, housing, utility costs and credit card interest. I am happy to pay my bills but I don't like the feeling I get knowing I'm paying much more than I should have to.

My focus now is to continue to work on lowering the balances on my credit cards. When I get them paid off I certainly won't be using them like I have in the past - if I use them at all. I've learned some hard lessons that I will never forget from this experience. And although it's true that these companies offer a service to consumers...many consumers pay dearly for those services - apparently at the whim of the company and without notice. And at this time...there's really nothing we can do about that.

Thank you for your time and consideration,

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Statement For The Record Of
AGNES HOLMES
Montgomery, Alabama
Before The
Senate Permanent Subcommittee on Investigations
Hearing On
Credit Card Practices: Unfair Interest Rate Increases
December 4, 2007

* * *

I have been a loyal customer with Chase Credit Card Services since 2002. I have two credit cards with Chase. I am also a good customer to Chase because I have never been late with a payment. In addition to never being late with a payment, I have often, more times than not, paid more than the requested amount due. At times I have paid the entire balance in full. Mr. Chairman, I have credit cards with other banks as well, and I use these bank cards too. I can say to you with absolute certainty that I have never in my life been late with any bill that I receive whether credit card, utilities, taxes and etc. Mr. Chairman, I pay each bill the day that I receive it to ensure that I do not lay it down some where and forget or overlook the bill.

Mr. Chairman, I do not feel that Chase has been as loyal and good to me as I have been with them. In June, 2007 when I received my bill from Chase, I was stunned beyond imagination to see that the minimum payment due was $165 and that the interest rate had increased to 30%. I knew that this must have been some kind of computer mistake. I called Customer Service at Chase to discuss my bill and was told by the representative that my bill was correct and "it would stand." I called Customer Service again about this bill and another representative told me that the bill was correct, "it would stand." I asked why my interest rate had gone up so drastically but he could not give me a reason why. I asked him to restore my rate to the previous rate of 19% because this would be a positive thing for both me and Chase. I explained to him that this would ensure that Chase would receive their requested amount due, and that I would be able to send them the requested amount due without posing any hardship on me. At this point he instructed me "to seek credit counseling." I then asked him if I might speak to a supervisor higher in rank and he told me that he was a supervisor. I was quite shaken and feeling helpless and did not know what else I could do since there are no phone numbers to access except Customer Service and The Billing Department. The three representatives that I spoke with did not seem to have a willingness to try and discuss my situation in detail, and I got a feeling of indifference on their part.

On September 14, 2007 I wrote a letter to Mr. James Dimon, Chairman of The Board and CEO of JPMorgan Chase and Co. I told Mr. Dimon about my situation as described above and about my experience with Customer Service. I told Mr. Dimon that I felt like I was being punished for being a good customer. I also asked Mr. Dimon to personally review my record with Chase, because if he did, then he too would reach the same conclusions as I did. I sent a copy of my letter to Mr. Dimon to each member of The Permanent Subcommittee on

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Investigations. A list of the committee members along with Senators Jeff Sessions and Richard Shelby was attached to Mr. Dimon's letter.

I received a late-afternoon-call from a gentleman in the Subcommittee office about 5-6 days after mailing my letter to Mr. Dimon. He asked me questions and told me that the Subcommittee would look into my situation. About 5 minutes after we completed the call, I received a call from a pleasant speaking person who identified herself as calling from the executive office at Chase. She informed me that they had received my letter and that someone in the executive office at Chase had been assigned to my case and would get in touch with me very soon.

A woman from the executive office called me the very next morning, and said "I want to help you resolve this, and I'm sorry that all this happened." During this call, she said that she would need a couple of days to review my file and get back with me. The next time she called she said that she was still reviewing my file and could see that "she might be able to help me." During this call, I told her that I had signed a waiver for Chase to release my records to Senator Carl Levin, and that I expected Chase to comply expeditiously when they received my authorization. I also told her that I had agreed to testify when the Subcommittee met again to discuss the credit card industry. I think that she was totally taken aback and thunderstruck by this revelation because she said "can you wait a minute?" I waited for some time and when she came back on the line, she said "did you know that this conversation has and is being recorded?" I told her that was okay by me.

After this conversation, Chase got things moving. In another day, I was told that they would reduce the percentage rate to 12.9% on both my cards and would credit my account the finance charges levied on both cards for the months of August and September. I thanked the woman from the executive office and was appreciative for what she did for me. She was always cordial, pleasant, and professional.

JPMorgan Chase & Co. uses an automated system to monitor credit scores when there is a decline or to monitor "high risk" customers, and Chase will raise the interest rate on these customers. It would be a good practice, and very good for the customers if Chase would use this same method to lower the interest rate when a customer's credit score went up.

Mr. Chairman, none of this would have been possible had Chase not known that I sent you Mr. Dimon's letter. It is unfortunate that this could not have been resolved without going through Congress. So, I know that I am one citizen that appreciates the Congress.

# # #

Dear Customer:

The following information pertains to your account ending in Redacted by Permanent Subcommittee on Investigations

IMPORTANT AMENDMENTS TO YOUR CREDIT CARD AGREEMENT, NOTICE OF BENEFITS CHANGE AND ANNUAL PRIVACY NOTICE

At Bank of America, providing timely and relevant information about the terms of your Credit Card Agreement is one of our most important responsibilities. The enclosed documents **contain important changes to the terms of your Credit Card Agreement with Bank of America, information describing changes to the benefits associated with your account and your 2007 Annual Privacy Policy for Consumers**. If you have more than one account with us, you may receive more than one copy of the privacy policy. This may include closed accounts with balances or inactive accounts. Please remember that if you previously opted out of sharing information with third parties or among Bank of America companies in accordance with the privacy policy you do not need to opt out again. Please read this notice carefully and keep it with your Credit Card Agreement.

IMPORTANT AMENDMENTS TO YOUR CREDIT CARD AGREEMENT

Please read this document carefully and keep it with your **Credit Card Agreement**. Except as amended below, the terms of your **Credit Card Agreement** remain in effect. If there is a conflict, the terms in this Amendment(s) will prevail.

Annual Percentage Rates

Summary: We are increasing your Annual Percentage Rates (APRs) and changing your APRs to variable rates. Your APRs will vary each month with changes in the prime rate. The prime rate will be selected at the end of each month. The variable APR calculated using the new prime rate will apply to all balances in the same billing cycle as this selection date. The balances include transactions made before the new prime rate is selected. **You may reject these changes as described below**. These changes will not affect any promotional rates that may currently be applied to your account.

Amendment: Effective on the **first day following your statement Closing Date in March 2007:**

Your account will have variable APRs which are higher than your current APRs. All variable rates are calculated using the variable rate formula below.

- The variable **ANNUAL PERCENTAGE RATE** for Category A is currently **22.90%** (corresponding Daily Periodic Rate of 0.062739%). The margin is 14.65 percentage points. This is the category for Balance Transfers and Check Cash Advances.
- The variable **ANNUAL PERCENTAGE RATE** for Category B is currently **22.90%** (corresponding Daily Periodic Rate of 0.062739%). The margin is 14.65 percentage points. This is the category for Bank and ATM Cash Advances.
- The variable **ANNUAL PERCENTAGE RATE** for Category C is currently **22.90%** (corresponding Daily Periodic Rate of 0.062739%). The margin is 14.65 percentage points. This is the category for Purchases.
- The variable **ANNUAL PERCENTAGE RATE** for Category D is currently **22.90%** (corresponding Daily Periodic Rate of 0.062739%). The margin is 14.65 percentage points. This is the category for Other Balances.

Variable Rate Information

The variable APR formula is calculated by adding together an index and a margin. The index is the highest U.S. Prime Rate as published in the "Money Rates" section of The Wall Street Journal on the last

Permanent Subcommittee on Investigations
EXHIBIT #15

publication day of each month. As of December 31, 2006, the index was 8.25 percentage points. The margin for each balance category is described above.

An increase or decrease in the index will cause a corresponding increase or decrease in your APRs on the first day of your billing cycle that begins in the same month in which the index is published. An increase in the index means that you will pay higher periodic rate finance charges and have a higher Total Minimum Payment Due. If The Wall Street Journal does not publish the U.S. Prime Rate, or if it changes the definition of the U.S. Prime Rate, we may, at our sole discretion, substitute another index.

As part of the Annual Percentage Rate Amendment decision, we obtained consumer report information, such as your accounts with other creditors, from Equifax Credit Information Services. Equifax did not make the decision and is unable to provide the specific reasons why the interest rate was increased. You have the right to obtain a free copy of your consumer report from Equifax within 60 days by calling 1-800-685-1111 and choosing option 1 from the voice response unit, or by writing to Equifax Credit Information Services, P.O. Box 740241, Atlanta, GA 30374-0241. You also have the right to dispute the accuracy or the completeness of any information in your consumer report.

To learn about your specific credit reasons for the Annual Percentage Rate Amendment, you may contact Bank of America at P.O. Box 15718, Wilmington, DE 19850 or call us at 1-800-421-2110 within 60 days of our providing this notice to you. Bank of America will provide a written response within 30 days after receiving your request.

Rejection Instructions for APR Increase:
If you do not wish to accept the above changes, you must meet all of the following requirements:

1. Write to us at Bank of America, P.O. Box 15718, Wilmington, DE 19850. Clearly print or type your name and full credit card account number and state that you reject this change. You must give notice in writing; it is not sufficient to telephone us. Send this notice only to the address in this paragraph; do not send it with a payment or any other type of customer service request. This mailbox is ONLY for rejection of change in terms.
2. Write to us immediately. We must receive your letter at the above address by **March 1, 2007** or your rejection will not be effective.
3. If you reject this change, it will not apply to your account. However, you must not use your account after March 1, 2007. If your account is used at any time after March 1, 2007, the above change will apply to your account even if you sent us timely notice rejecting the change. Remember, use of your account includes credit card access checks and any charges that are billed to your account on a regular basis such as online services and subscriptions.

Monthly Minimum Payment
Summary: As a result of federal guidance, we are changing the minimum payment calculation on your account. The Current Payment portion of your minimum payment will no longer have a cap. This change may increase your monthly payment requirement. This change will be effective with the minimum payment that is calculated based on your balance for the billing cycle that closes in **July 2007**. If you use a bill payment service, you should contact them about the new minimum payment.

Amendment: This change will be effective with the minimum payment that is calculated based on your balance for the billing cycle that closes in **July 2007:**

We are replacing the *Total Minimum Payment Due* section of your Agreement with the following:

TOTAL MINIMUM PAYMENT DUE
You may pay your total outstanding balance at any time. Each billing cycle, you must pay at least the Total Minimum Payment Due shown on your monthly statement by its Payment Due Date. The Total Minimum Payment Due is the sum of all past due amounts plus the Current Payment. The Current Payment for each billing cycle includes three amounts: (1) 1% of your balance (your New Balance

Total except for any new Periodic Rate Finance Charges, and Late Fee), and (2) new Periodic Rate Finance Charges, and (3) new Late Fee. Generally, the lowest it will be is **$15**. We round the payment amount down to the nearest dollar. If a payment is credited to your account but is returned unpaid in a later billing cycle, we will recalculate the Total Minimum Payment Due for the billing cycle in which the payment was originally credited.

Overdraft Protection

Summary: Your Agreement now permits overdraft protection transfers to a properly linked Bank of America checking account. Overdraft protection transfers are Bank Cash Advances. There is a fee for each overdraft protection transfer.

Amendment: Effective on May 1, 2007:

We are adding the following section to your Agreement:

Overdraft Protection

If your checking account with Bank of America is linked to this account, this overdraft protection feature will allow funds to be transferred ("overdraft protection transfers") from this account into your designated checking account with Bank of America ("checking account") when transactions occur on your checking account, such as checks or other debits, that if paid would cause the checking account to be overdrawn ("overdraft transactions"). Overdraft protection transfers include automatic transfers to cover checking account fees. Overdraft protection transfers are processed after close of business Monday through Friday and are treated as Category B Bank Cash Advances. Each day's overdraft transactions will be totaled and rounded to the next $100 ($25 if you opened your checking account in Washington or Idaho) increment up to your available credit limit, regardless of who initiated the overdraft transactions. For example, if your checking account has a balance of $1.00 and a check or other debit item for $125 is presented for payment, which if paid would cause your checking account to be overdrawn, an overdraft protection transfer of $200 will be made to your checking account and a Bank Cash Advance of $200 will post to this account. The amount of available credit on this account must be sufficient to cover the total amount of overdraft transactions (received by Bank of America that day) rounded to the next $100 increment (but excluding any overdraft protection fee); otherwise one or more of the overdraft transactions for that day will be rejected. However, if the available credit on this account is greater than the overdraft transaction amount, but the available credit is insufficient for the overdraft transaction amount to be rounded to the next $100 increment, then the amount of the overdraft transaction will be rounded to the highest whole dollar amount of your available credit. (And in such an event, the accrued finance charges may result in an Overlimit Fee.) We may permit or refuse to permit any overdraft protection transfer that would cause you to exceed the credit limit on this account; but if we permit it, you may be assessed an Overlimit Fee during the billing cycle in which the transfer occurs. This overdraft protection feature will automatically be cancelled if this account is closed by either you or us, or at any time upon your request. Your overdraft transactions remain subject to the terms of your checking account with Bank of America, any related enrollment agreement, and this Agreement.

We are adding the following to your Agreement section titled *Transaction Fee Finance Charge:*

Transaction Fee for Overdraft Protection: If you have enrolled this account to provide overdraft protection, we will assess a transaction fee (**FINANCE CHARGE**) equal to 3% of the U.S. dollar amount of each such overdraft transaction that posts to this account (Fee: Min. $10.00). The transaction fee for these overdraft protection transfers will be assessed in lieu of the Bank Cash Advance fee.

The definition of Bank Cash Advance is:
"Bank Cash Advance" means use of your account to obtain a loan at any financial institution (*e.g.*, to obtain cash, money orders, or travelers checks), including overdraft transactions if this account is eligible for and properly enrolled in an overdraft protection program, at any non-financial institution (to obtain cash), or for any payment you make to us that is returned to us unpaid for any reason,

including the related finance charges.

IMPORTANT - CHANGES TO THE BENEFIT COVERAGE ON YOUR ACCOUNT - PLEASE READ

Effective June 1, 2007, some benefits associated with your account will change. To download a new benefit guide, which details the changes summarized below, please visit www.fiacardservices.com/visaaaa or to request a paper copy of the benefit guide, please call 1-866-783-8663.

Change To The Benefit Provider And Claims Process

The benefit administrator for all of the benefits associated with your credit card except Visa Auto Rental Collision Damage Waiver is changing to the Cardwell Agency. The change will result in modifications to the claims process and provider contact information.

Change To Common Carrier Travel Accident Insurance Coverage And Benefit Provider

There are changes to your Common Carrier Travel Accident Insurance Coverage. No change in the coverage levels will occur, except changes to the types of covered losses including elimination of Permanent Total Disability coverage and elimination of Exposure and Disappearance coverage. In addition, the benefit administrator is changing to the Cardwell Agency. The change will result in modifications to the claims process and provider contact information for this benefit. The current travel accident coverage will still apply to covered trips commencing before June 1, 2007 and will be processed through the current benefit provider as outlined in your current benefits guide.

EQUAL CREDIT OPPORTUNITY NOTICE

The federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this bank is the Office of the Comptroller of the Currency, Customer Assistance Group, 1301 McKinney Street, Suite 3450, Houston, TX 77010-9050.

FIA Card Services, N.A., P.O. Box 15718, Wilmington, DE 19850. Please note that if you choose to correspond with us in writing, please provide your full account number and print your name.

You're *invited* to enjoy
the rewards of a Discover® More℠ Card

12
William R. Hard

Redacted by
Permanent Subcommittee
on Investigations

Dear William R. Hard,

Only a select group receives this special 3.9% fixed APR* on balance transfers until 2011 offer. It's for those who have achieved a certain level of financial success – and who expect and demand exceptional rewards, personalized account management options and superior customer service from their credit card.

That's why you're Pre-Approved† for the Discover® More℠ Card
Because you've earned Pre-Approved status, you're eligible for a number of benefits not always available to others – including more ways to earn more cash than any other card and, of course, no annual fee.

Save on every purchase with our 0% APR* until June 2008. Plus, save even more when you transfer your higher-rate balances to our 3.9% APR on balance transfers all the way until January 2011!

*More ways to earn more cash than anyone else℠**
Many credit cards offer rewards, but none can match Discover Card and *Cashback Bonus*®. Only Discover Card offers the Get More program – a free and easy way to build rewards even faster.

Get 5% *Cashback Bonus* in categories that change four times a year like travel, home, gas, restaurants, movies and more. Plus get 5% to 20% *Cashback Bonus* at top online retailers such as CircuitCity.com, LandsEnd.com and Barnes & Noble.com through our exclusive online shopping site. In addition, you'll automatically earn up to 1% *Cashback Bonus* on all other purchases.

Rewards are unlimited and never expire*. Unlike many other reward programs, there's no limit to the amount of *Cashback Bonus* you can earn. While other cards require you to redeem annually, Discover Card lets you cash in whenever you want. Redeem in $20 increments or let it accumulate.

The only rewards program that lets you increase – even double – your rewards when you redeem for gift cards or instant eCertificates from our 100 Cashback Bonus Partners, such as:

AMC Theatres®	Chili's Grill & Bar®	Kohls
Bed Bath & Beyond®	Gap	The Sharper Image®

...and many others.

The most redemption options of any cash rewards program. With Discover Card, you can redeem for cash by having your *Cashback Bonus* credited to your Discover Card account or electronically deposited to your bank account. Either way, it's easy – simply go online or call our toll-free number.

next page, please...

DISCOVER CARD

*See reverse side of second page for rates, fees, rewards and other important information.
† Subject to review of your financial information.

INTSTKV14-13-0172509-93

You can choose not to receive prescreened offers of credit by calling toll-free (888) 567-8688.
See PRESCREEN & OPT-OUT NOTICE on the reverse side of third page for more information.

Permanent Subcommittee on Investigations
EXHIBIT #16

World class travel benefits
When you use your Discover Card for travel purchases, you're covered by the most complete package of free travel benefits offered by any no-annual-fee credit card:
- Global Traveler's Hotline provides fast, friendly travel assistance – from finding lost luggage, to rebooking a flight, to arranging medical assistance – in just one call
- Car Rental Insurance Plan – covers you for eligible collision damage, at no cost to you, when you rent a car with Discover Card and decline coverage offered by the rental agency
- Flight Accident Insurance Plan – provided at no cost to you when you purchase a plane ticket with your Discover Card

Flexible account management features that put you in control
Manage your finances your way. Our easy-to-use online tools are among the most popular Discover Card benefits – saving you time and money when you customize your account the way you want.

Decide how and when to pay your bill. Whether it's choosing a payment date that's convenient for you, scheduling payments in advance, or signing up for timely e-mail payment reminders, you're in control.

Track and review purchases simply and easily. You can view all your transactions online with daily updates. And you have the option to sort transactions by date, amount, description or category. Plus:
- Get year-end summaries to help with record keeping and tax preparation
- Sign up for e-mail alerts to notify you when a large purchase is made or a credit is posted

Use helpful money-management tools. Download account information easily to Quicken® – or use online calculators to see how much you can save if you consolidate debt by transferring higher rate balances to your Discover Card.

And speaking of customizing your account, once you're a cardmember, you can personalize your card by choosing from over 150 different card designs. Not only can you show off your style, but everyone on your account can select a favorite design too.

Complete fraud protection for your peace of mind
$0 fraud liability guarantee means you're never responsible for any unauthorized charge on your account – online or offline. And that's just the beginning. You're also protected with:
- Advanced fraud early warning alerts – we'll call you right away if there's unusual activity on your account
- Secure online account numbers so you can shop online without revealing your account number
- Personal Fraud Specialists available to help you 24/7

As a cardmember, you have the assurance of knowing your Discover Card is always protected—anywhere, anytime, day or night.

Customer Service that puts you first
Should you ever have billing inquiries or questions about any of our services, benefits or rewards, help is always available with easy self-service options – online or by phone. Reach a live rep within 60 seconds, twenty-four hours a day, seven days a week. All of our representatives are ready to provide you with the exceptional personal attention you deserve.

Accept your Discover More Card today
You're Pre-Approved. Simply fill out the acceptance form and mail it in the enclosed postage-paid envelope. Even easier, reply online at MyDiscoverCard.com or call 1-800-347-3026. We look forward to welcoming you as a Discover Cardmember!

Sincerely,

Edward Stolbof

Edward Stolbof
Senior Vice President, Marketing

P.S. As a Pre-Approved Discover Cardmember, you'll enjoy a 0% intro APR on purchases until June 2008 and a 3.9% fixed APR* on balance transfers until January 2011, no annual fee and more ways to earn more cash than anyone else! But this special offer is limited. Please accept by December 31, 2007.

*See reverse side for rates, fees, rewards and other important information.

©2007 Discover Bank, Member FDIC

You're *invited* to enjoy

the rewards of a Discover® More℠ Card

Accept your Discover® More℠ Card by December 31, 2007 and get:

- 0% APR* on purchases until June 2008
- 3.9% APR* on balance transfers until January 2011
- *Cashback Bonus*® on every purchase
- $0 fraud liability guarantee
- Flexible account management features that put you in control
- No annual fee

Just accept online at MyDiscoverCard.com or fill out and return this acceptance form or call us at 1-800-347-3026.

Accept Online MyDiscoverCard.com

Accept by Mail with the attached form

Accept by Phone 1-800-347-3026

Invitation #: Redacted by Permanent Subcommittee on Investigations

INTSTKV14-13-0172509/NP93

ACCEPT YOUR DISCOVER® MORE℠ CARD TODAY! **PAT20 FS**

INVITATION #: Redacted by Permanent Subcommittee on Investigations

ACCEPT BY: December 31, 2007 INITIAL CREDIT: Up to $25,000

William R. Hard

Redacted by Permanent Subcommittee on Investigations

**Use this area to provide a street address if address at left is a PO box and/or if the address is incorrect. Offer is not transferable

Personal Information

*This information is required to complete this form.

HOME PHONE* - -

EMPLOYER

CHECK IF: ☐ FULL-TIME STUDENT

DATE OF BIRTH* (must be at least 18 yrs. of age)

OCCUPATION

YEARS

UNIVERSITY:

SOCIAL SECURITY #* - -

WORK PHONE - -

TOTAL HOUSEHOLD INCOME**

$, .00

Including annual salary, bonus and other income*

* Alimony, child support or separate maintenance income need not be disclosed if you do not wish us to consider it as basis for repayment. Except for full-time students, you must have a minimum annual household income of $15,000 to be considered for any Discover® Card.

LENGTH OF TIME AT PRESENT ADDRESS

YEARS MONTHS

DO YOU: ☐ OWN ☐ RENT

E-MAIL ADDRESS (Receive important Account servicing information and other relevant Discover Card offers.)

MONTHLY HOUSING PAYMENT*

$, .00

Add one person to your account for FREE.

(FIRST NAME/MIDDLE INITIAL/LAST NAME)

Complete this section to transfer balances from your Visa,® MasterCard,® American Express® or store card accounts.

	ACCOUNT NUMBER	CREDIT CARD ISSUER	TRANSFER AMOUNT
1			$, .
2			$, .

Sign and Return

X

I have read and agree to the Important Information on the reverse side. If I am not approved, I want to be considered for other Discover® Network credit cards offered by your lending partners and agree that you may provide my application information to those partners on a one-time basis for that purpose only (except where prohibited by law).

/ /

DATE

YES, I want the ability to put my account payments on hold by enrolling in Discover® Payment Protection. I understand that this protection is optional and I can cancel at any time. I have read and agree to the Discover Payment Protection Important Information located on the reverse side.

Initial Here: X

07

IMPORTANT INFORMATION

Annual Percentage Rate (APR) for Purchases	0% until the last day of the billing period ending during June 2008*; then the standard APR, 13.99%
Other APRs	**Balance Transfers:** 3.90% until the last day of the billing period ending during January 2011*; then the standard APR for purchases **Cash Advances:** 22.99% **Default Rates:** Up to 28.99%*
Grace Period for Repayment of the Balance of Purchases	At least 25 days when you pay your balance in full each month
Method of Computing the Balance for Purchases	Two-cycle Average Daily Balance (including new purchases)
Annual Fee: NONE	**Minimum Finance Charge:** $.50

BALANCE TRANSFER TRANSACTION FEE: 3% for each balance transfer made under this offer, with a minimum of $10 and a maximum of $75. **CASH ADVANCE TRANSACTION FEE:** 3% for each cash advance, with a minimum of $5 and no maximum. **LATE FEE:** $19 on balances up to $250 and $39 on balances over $250. **OVERLIMIT FEE:** $15 on balances up to $500, and $39 on balances over $500.

***DEFAULT RATE:** If you are late making a payment, we may increase your APRs to a Default Rate. Your Default Rates are determined based on factors such as your current purchase APR, your payment history with us and your general credit history. See Cardmember Agreement for details.

INTRODUCTORY/SPECIAL APR OFFERS: You must respond and be approved for an account by December 31, 2007 to take advantage of this introductory/special rate offer. If you are approved for an account, you will be able to make balance transfers under this offer until March 1, 2008. If you request balance transfers after this date, we will not make the balance transfers. Please allow up to 4 weeks before payments to your other accounts are made. Accordingly, you should continue to make all required payments until you confirm that the balance transfers were made. Balance transfers may not be used to pay any Discover accounts. Balance transfers do not earn rewards. Balance transfer requests will be processed from the lowest to the highest dollar amount. If a balance transfer transaction would cause you to exceed your account credit limit, you authorize us to process your balance transfers for an amount less than the full amount requested. Making additional transactions may still cause you to exceed your account credit limit. You may only make balance transfers to accounts that list you as an accountholder. There is no grace period on balance transfers. If you are late making a payment, any introductory/special rates will terminate and the Default Rate will apply. If more than 90% of your new balance consists of special rate balance transfers, we may increase your minimum payment due to a maximum of 4% of the new balance if it would otherwise be less than that. Each balance transfer made under this offer is subject to a balance transfer transaction fee as described above.

PAYMENT ALLOCATION: We apply payments to balances with low introductory/special APRs (such as special balance transfer and purchase APRs) prior to balances with standard APRs. Therefore, your savings will be reduced by making additional transactions or having balances with standard APRs. In addition, the length of time the introductory/special APRs will apply to your account may be reduced by the amount of your payments.

APPLICATION INFORMATION: Federal law requires that we obtain certain information about you such as your date of birth and street address in order to verify your identity. This offer is non-transferable. Changes to any addressee name will void this offer. Offer only available to U.S. citizens and permanent residents 18 and older. Your credit limit will be at least $500 and along with other terms of the account, will be based on a review of the information you provide in this application, your current consumer report and any other information bearing on your creditworthiness. You authorize us to obtain a consumer report from consumer reporting agencies in considering this application and for review, renewal, change in credit limit, collection or other legitimate purposes associated with your Account. Upon your request, we will inform you of the name and address of each consumer reporting agency from which we obtained a consumer report relating to you. To apply with a joint applicant, write to us at PO Box 30943, Salt Lake City, UT 84130-0943. Every applicant, including a spouse, may apply for a separate account. THIS OFFER SUPERSEDES ALL PRIOR OFFERS. **Please allow 30 days for us to process your application.**

CARDMEMBER AGREEMENT: You agree to be bound by the terms of the Cardmember Agreement, which will be sent with the Card. You also agree that the Cardmember Agreement and the account are governed by Delaware and federal law. Except for any introductory/special APR offers, the terms of your account, including rates and fees, are subject to change.

ARBITRATION: The Cardmember Agreement provides that we may choose to resolve a claim relating to your account by binding arbitration, in which case you will not have the right to have that claim resolved by a judge or jury. You may reject the arbitration provision with respect to your new account within 30 days after receiving your Card. For restrictions and details, write to us at PO Box 15192, Wilmington, DE 19886-1020.

OHIO RESIDENTS: Ohio laws against discrimination require that all creditors make credit equally available to all creditworthy customers, and that credit reporting agencies maintain separate credit histories on each individual upon request. The Ohio Civil Rights Commission administers compliance with this law. **NEW YORK RESIDENTS:** Call the New York State Banking Department at (800) 518-8866 for a comparative list of credit card rates, fees and grace periods. **WISCONSIN RESIDENTS:** No agreement, court order or individual statement applying to marital property will adversely affect a creditor's interests unless prior to the time credit is granted the creditor is furnished with a copy of the agreement, court order or statement, or has actual knowledge of the adverse provision. Married Wisconsin residents must furnish their spouse's name and address to us at PO Box 15410, Wilmington, DE 19886-0820.

REWARDS: Earn unlimited cash rewards on all purchases. Earn a full 5% *Cashback Bonus* on purchases throughout the year by participating in each Get More program. In addition, earn a full 1% on all other purchases after your total annual purchases exceed $3,000; other purchases that are part of your first $1,500 earn .25% and other purchases that are part of your second $1,500 earn .50%. Warehouse purchases (those made at select warehouse clubs, discount stores and their affiliates) earn .25%. We do not include warehouse purchases or Get More program purchases (up to the dollar limit specified in each applicable program) in calculating your total annual purchases to determine your tier level. Rewards are redeemable in $20 increments. Rewards have no expiration date; however, if your account is closed for any reason or inactive for 18 consecutive months or if you fail to make the Minimum Payment Due by the Payment Due Date for two consecutive billing periods, your *Cashback Bonus* will be forfeited. Full terms and conditions will be sent with your Card.

INSURANCE: Excess Collision Damage Waiver Insurance and Scheduled Air Travel Accident Insurance are underwritten by Federal Insurance Company, a member insurer of the Chubb Group of Insurance Companies of Warren, NJ. Certain restrictions and limitations apply. Refer to the Description of Coverage for more complete information.

GLOBAL TRAVELER'S HOTLINE – IMPORTANT INFORMATION

The Global Traveler's Hotline provides Cardmembers and their families a wide range of free travel assistance benefits, and is operated by AXA Assistance USA, Inc.

THIRD-PARTY CHARGES. Global Traveler's Hotline is not insurance, so you will be responsible for all third-party fees and expenses for services requested, such as professional or medical fees.

ELIGIBILITY. You must be a Cardmember whose Account is in good standing, the Cardmember's spouse or dependent child traveling with the Cardmember, or an Authorized User of an Account in good standing.

AVAILABILITY OF SERVICES. Certain services may not be available in all areas. Call us for assistance or if you have questions about a specific destination. While AXA Assistance will make every reasonable effort to provide the services, neither AXA Assistance nor Discover Bank or our respective affiliates will be liable if a service is not provided or for any services that are provided by third parties. The services and these terms and conditions are subject to change without notice.

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ISCOVER® PAYMENT PROTECTION - IMPORTANT INFORMATION

iscover Payment Protection is provided by Discover Bank and includes both debt suspension and debt cancellation benefits. Discover Payment Protection is not insurance.

HIS PRODUCT IS OPTIONAL. Your purchase of Payment Protection is optional. Whether or not you purchase Discover Payment Protection will not affect your application for credit or the other terms f any existing credit agreement you have with us.

MOUNT OF FEE. The monthly fee for Payment Protection is your total balance at the end of each monthly billing period (including any partial monthly billing period at the beginning of your nrollment), multiplied by 89¢ per $100.

ERMINATION OF DISCOVER PAYMENT PROTECTION. Enrollment will continue until you or we cancel or your Discover Card Account is closed. You have the right to cancel Payment Protection at any time. you cancel within 30 days of your enrollment date, we will refund your Payment Protection fee. We may cancel Payment Protection at any time, but will not reduce benefits you are already receiving.

HANGE IN TERMS. We may change the Payment Protection terms and fees at any time. If we make a change that is unfavorable to you or involves an additional charge, we will give you advance written notice and a reasonable opportunity to cancel without penalty.

AKING A CLAIM. To apply for benefits, write to Discover Payment Protection Customer Service, PO Box 979013, Miami, FL 33197-9013. Once you apply for benefits, we will generally send you written verification forms and a checklist showing the evidence of the Covered Event you must provide.

EXPLANATION OF DEBT SUSPENSION AGREEMENT. If benefits are activated for a Covered Event (Involuntary Unemployment, Disability, Leave of Absence, Hospitalization, Federal or State Disaster, Death of a Child or Spouse, Marriage, Moving, Birth or Adoption, Graduation, New Job, Promotion, and Retirement), we will not impose a Minimum Payment Due, any periodic finance charges, late fees, overlimit fees or Discover Payment Protection fees in any monthly billing period in which benefits are provided. Your duty to pay the loan principal and finance charges to us is only suspended. You must fully repay the loan after the period of suspension has expired.

USE OF CARD OR CREDIT LINE RESTRICTED. You may not use your Discover Card Account while receiving benefits for Involuntary Unemployment, Disability, Leave of Absence, Hospitalization, Disaster or Death of a Child or Spouse.

DEBT CANCELLATION. If you die while enrolled, the balance on your Discover Card Account, as of the date of your death, will be cancelled, up to $25,000.

ELIGIBILITY REQUIREMENTS, CONDITIONS AND EXCLUSIONS. There are eligibility requirements, conditions and exclusions that could prevent you from receiving benefits under Payment Protection. A complete explanation is in the following paragraphs of the Payment Protection Terms and Conditions: paragraph 2 "Important Limitations on Benefits and Use of Your Account During Benefit Period," and the subparagraphs "Exclusions" under paragraphs 3(A), 3(B), 3(C), 3(D), 3(E), 3(F) and 5. We will send you information including the Terms and Conditions before you have to pay. Please read it carefully.

Debt Cancellation is not offered or available to residents of Alaska, Florida, Iowa, Nevada, Oregon, Rhode Island, Tennessee, Wisconsin, Puerto Rico, Guam, Virgin Islands or any other state where it is regulated as insurance.

PRESCREEN & OPT-OUT NOTICE. You were "prescreened" to receive this offer of credit because your credit report indicated you met our criteria. We may not extend credit to you if, after receiving your application, we find that you do not continue to meet the criteria used to select you or you do not meet any applicable criteria bearing on your creditworthiness established prior to your selection, or if you omit any required information from your application. Your ability to receive prescreened offers gives you access to the most competitive credit rates and terms available. If you choose not to receive such offers, call (888) 567-8688 or write to TransUnion Name Removal, PO Box 505, Woodlyn, PA 19094-0505; Equifax Options, PO Box 740123, Atlanta, GA 30374-0123; and Experian Consumer Opt-Out, 701 Experian Parkway, Allen, TX 75013.

DISCOVER CARD

New Balance $8,131.20

Minimum Payment Due $162.00

Payment Due Date **December 5, 2007**

Account Number ending in [redacted]
Enter Amount Enclosed Below

$ _____

Please make check payable to Discover Card or pay online @ Discovercard.com.

HARD, JANET M
WILLIAM R HARD
[redacted]
FREELAND MI 48623-0003

Make payments on your schedule, in advance or on the same day as your due date. Visit Discoveroard.com/payments to make an online payment today.

PO BOX 15251
WILMINGTON DE 19886-5251

Address, e-mail or telephone change? Print change in space above, or go to Discovercard.com. Print your e-mail address to receive important Account information and special offers.

[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Discover More Card Account Summary

Closing Date: November 6, 2007 page 1 of ??PN??

Account number ending in	[redacted]
Payment Due Date	December 5, 2007
Minimum Payment Due	$162.00
Credit Limit	$11,000.00
Credit Available	$2,868.00
Cash Credit Limit	$5,500.00
Cash Credit Available	$2,868.00

Previous Balance		$8,176.42
Payments And Credits	-	200.00
Purchases	+	7.95
Cash Advances	+	0.00
Balance Transfers	+	0.00
Finance Charges	+	146.83
New Balance	=	$8,131.20

Cashback Bonus®

Opening Cashback Bonus Balance	$	151.07
New Cashback Bonus Earned	+	0.01
Cashback Bonus Balance	$	**151.08**
Available to Redeem	$	**140.00**

Cashback Bonus® Anniversary Date: April 6

CONGRATULATIONS! Your Cashback Bonus(R) is waiting for you. Visit Discovercard.com or call 1-800-DISCOVER (1-800-347-2683) to get your share of America's #1 Cash Rewards Program.

How Can We Help You?

Please have your Discover Card available.
Manage your account online at Discovercard.com
Customer Service: 1-800-DISCOVER (1-800-347-2683)

For Account Inquiries, write to us at:
Discover More Card, PO Box 30943
Salt Lake City, UT 84130

TDD (Telecommunications Device for the Deaf):
For assistance, see reverse side.

Transactions

$0 Fraud Liability Guarantee Use your Discover Card with confidence.

	Trans. Date	Post Date		
Payments and Credits	Nov 4	Nov 4	INTERNET PAYMENT - THANK YOU	$ -200.00
Services	Oct 8	Oct 8	TWX*AOL SERVICE 1007 800-827-6364 NY [redacted]	7.95

Finance Charge Summary

Balance Transfer offer for current billing period: Daily Periodic Rate: 0.01616%; corresponding ANNUAL PERCENTAGE RATE: 5.90%. Rate is subject to the terms of the offer including expiration.

	Average Daily Balances	Daily Periodic Rates	Nominal ANNUAL PERCENTAGE RATES	ANNUAL PERCENTAGE RATES	Periodic FINANCE CHARGES	Transaction Fee FINANCE CHARGES
current billing period: 31 days						
Purchases	$8235.74	0.05751%	20.99% F	20.99%	$146.83	none
Cash Advances	$0	0.07395%	26.99% F	26.99%	$0	$0

The rates that apply to your Account are either fixed (F) or they may vary (V) as noted above.

Permanent Subcommittee on Investigations
EXHIBIT #17

= Redacted by the Permanent Subcommittee on Investigations

Bonnie Rushing
[redacted]
Naples, Florida 34114

December 13, 2007

Senator Norm Coleman
Senate Permanent Subcommittee
on Investigations
320 Senate Hart Office Building
Washington, D.C. 20510

Re: Hearings December 4, 2007

Senator Coleman:

I have reflected on the answers given to you during my testimony on December 4th. I did not answer two of your questions well. I would, with your forbearance, like to answer your questions now. They were: (1) What could the credit card companies do to provide better notification to consumers; and (2) How could have the employees of Bank of America ("BofA") have done to make me feel more comfortable with the interactions I had with them. I am also compelled to respond to these specific questions particularly after reading the testimony of Mr. Hammonds (President, BofA).

1. Notification Process. Enclosed is a notification I received on my closed account (AAA) with Bank of America and my response. I did not receive any further communication from BofA on this matter. Please note the following issues with the notification:

- Cover Page: The cover page starts by stating that this is a notification of changes to my credit card account. It clearly says there is a summary of the changes before the amendments. This first page is, however, an advertisement for other services that BofA offers. There is nothing on this page about changes to my account. I think this is very confusing to the average consumer. Most people would stop right here and say "This has nothing to do with my account," and throw the whole thing away. I think it is deceptive to introduce changes in this manner. If BofA wants to advertise its services, it should send out its marketing collateral in a separate mailing. Notifications of change of terms should be that, and only that.
- Page 1-5: This is the actual start of the change in terms. I think that any company could produce a notification in plain English (or Spanish, Russian, Chinese, etc.) that could explain the change in terms to the average consumer very well. The simple explanation could be followed with all the "legal-eze" necessary to satisfy the lawyers. I have attached a sample of what I think would have sufficed for the notice I received.
- Page 5 - Arbitration and Litigation: BofA stated that the only change I could reject was the "Default Pricing." The first sentence of this change regarding "Arbitration and Litigation" states, "This Arbitration and Litigation provision applies to you unless you were given the opportunity to reject the Arbitration and Litigation provisions. . . ." I take extreme exception to the fact that BofA is selectively allowing some consumers to allow rejection of this change of terms. The first paragraph further provides: "If you did reject effectively

Permanent Subcommittee on Investigations
EXHIBIT #18

such a provision, you agreed that any litigation brought by you against us regarding this account or this Agreement shall be brought in a court located in the State of Delaware."

As written the way in which arbitration and litigation will be conducted is extremely prejudiced against the consumer. No sophisticated party to a contract would ever agree to not have the ability to arbitrate and litigate on a "fair playing field," starting with the venue. The venue or court of jurisdiction for litigation should be decided at the time the claim is brought. Again, no sophisticated party to a contract would agree to abandon that choice of venue without negotiation. This whole provision is egregiously slanted to favor BofA.

I think that credit card companies need to know that their customers are not able to understand the complicated language contained in current change of term notifications. When confronted with these notices, rather than be embarrassed and appear under-educated or stupid, an average consumer will not call and ask what these changes mean. They will discard the notice and then be totally befuddled when there are changes on their monthly statement.

The companies must have all of the legal language published. I understand that issue. I also understand being overwhelmed by a language so foreign (even if it is your native tongue) that you cannot fathom what is being communicated. The basic issue is: when the terms of a contract are changed by the other party and you do not have the skills to understand and thus comply with the changed terms, you have no chance to **not** breach the contract. You will, consequently, be in default. That does not make good business sense for the bank or the consumer.

2. Employee/Customer Relations: Mr. Hammond's testimony (Page 9 and Page 10) addressed BofA customer relations. He stated:

- "We operate our business to minimize and appropriately address customer complaints. . .

"Our well-trained associates, equipped with information and tools necessary to understand our customer needs, interact with millions card customers each day. Through these interactions the vast majority of customers' questions, concerns and problems are addressed, and we have systemic processed that capture and respond to what our customers are telling us.

****

"We remain committed to improving the customer experience. . . . .[W]e remain focused on our goal of offering our credit card customers a better experience than any other bank. . . . .Despite our efforts to educate customers and give them the tools they need to manage their accounts, some customers experience serious financial problems - often outside of their control. We work hard to assist our customers who do experience such problems. Our associates are educated and empowered to take a holistic approach when dealing with a customer experiencing financial difficulties. . . ."

When you asked me the question about what the BofA employees could have done to make my experience different, I explained to you how I felt during the discussions. What I would like to tell you now is that, if BofA's intention is that their employees minimize customer complaints, have tools at their disposal to deal with customers who are (allegedly) in financial trouble and are "educated and empowered to take a holistic approach" when dealing with customers, I think the BofA Human Resources Department might want to budget for some more training sessions.

I was employed for 13.5 years with Portland General Electric Company, Portland, Oregon (Legal Department and Trading Floor). During my tenure, I had the good fortune to be trained in the "7 Habits of Highly Effective People" (Stephen Covey). I carry these tenets with me every day, particularly, the tenet of "Dignify People." The employees of BofA treated me with disrespect; they did not treat me with dignity. They made me afraid, true, but more than that, they treated me as if I had done something wrong and were less than who I am. No one deserves to be treated that way, Senator, and I do not care if you are in the midst of bankruptcy and have not paid your bill for months. Every individual on this planet, even the poorest pauper deserves to be treated with dignity and respect.

Thank you for taking the time to hear what I have to say on these matters. I appreciate all that you and the Committee are doing on this issue.

Sincerely,

/s/ Bonnie Rushing
Bonnie Rushing

Enclosures

2393297_1.doc 12/13/2007

NOTICE OF CHANGES TO YOUR ACCOUNT

YOUR ACCOUNT WILL BE CHANGED A FOLLOWS

THESE ARE SHORT WAYS TO TELL YOU OF THE CHANGES; ATTACHED ARE THE FULL CHANGES TO YOUR ACCOUNT AND SHOULD BE READ.

1. **Change in Categories:** Starting **January 19, 2008**, the way you see the balances on your statement will change. See below for how your statement will now read:

Old Balance Category		New Balance Category
Balance Transfers	→	**Balance Transfers**
Check Cash Advances	→	**Balance Transfers**
ATM Cash Advances	→	**Cash Advances**
Bank Cash Advances	→	**Cash Advances**
Purchases	→	**Purchases**
Other Balances	→	**Other Balances**

2. **Default Pricing:** Starting **January 19, 2008**, if you do not pay on time and/or exceed your credit limit more than **two (2) times a rolling 24 months period***, the interest rate on your account may be increased **without notice.** If this happens, if you pay on-time **and** the minimum monthly payments for six (6) months **and** you do not exceed your credit limit during that six (6) month period, the interest rate on your account will be reduced by two percent (2%).
You can reject this change by writing to: FIA Card Services, N.A., PO Box 17151, Wilmington, DE 19850. Clearly print or type your name and full credit card account number and state that you reject the Default Pricing Change in Terms. *You must give this notice in writing.* You must send this letter so that FIA receives it by January 18, 2008 or it will not be valid. It is best that you send this letter by Certified Mail, Return Receipt Requested.

THE NEXT CHANGE ONLY APPLIES IF YOU HAVE A "VARIABLE INTEREST RATE"

3. **Variable Rates: Effective December 19, 2007**, the date on which the percent on **variable rate** accounts is made will be changed. Instead of using the prime rate at the **end of the month**, the company will be using the **highest prime rate published during the preceding three months.** The prime rate is a widely used interest rate. **If the prime rate goes up, your interest rate will go up. If the prime rate goes down, your interest rate will go down. PLEASE LOOK AT YOUR STATEMENT CAREFULLY EACH MONTH AND WATCH YOUR INTEREST RATE TO BE SURE YOU ARE MAKING AT LEAST THE MINIMUM PAYMENT.**

*"rolling 24 month period" means if you if you do not pay on time and/or exceed your credit limit anytime during 24 months the 24 month time starts all over again.

4. **Transaction Fee Finance Charges:**

(a) Balance Transfers: **Effective January 19, 2008**, if you use a Balance Transfer the fee will be three percent (3%) of the money you received. The company will charge you at least $5.00, but no more than $50 for this service.

Effective March 10, 2008, if you make a Balance Transfer, the fee will be three percent (3%) of the amount of the money you received. The company will charge you at least $10 for this service.

(b) Check Cash Advance: **Effective January 19, 2008**, if you use a Check for a Cash Advance the company will charge you three percent (3%) of the money you receive. The company will charge you at least $5.00 but no more than $50 for this service.

Effective March 10, 2008, if you use a Check for a Cash Advance, the company will charge you three percent (3%) for the money you receive. The company will charge you at least $10 for this service.

(c) Direct Deposit: Effective **January 19, 2008**, if you use a Direct Deposit the company will charge you three percent (3%) of the money you put into the account. The company will charge you at least $5.00 but no more than $50 for this service.

Effective March 10, 2008, if you use a Check for a Cash Advance, the company will charge you three percent (3%) for the money you put into the account. The company will charge you at least $10 for this service.

5. **Arbitration and Litigation:** Important changes to your account that are effective **November 30, 2007**: The company has changed the way you can arbitrate and litigate disagreements. **Arbitration and litigation will be under strict guidelines and rules. The company recommends that you talk with an attorney if you think you have a claim against the company.**

6. **Additional Changes to Your Account:** Because of the above changes, other sections and terms of your agreement will also change. If you would like to have an explanation of these other changes please contact a company representative at: 888-___ _____or read the attached full explanation of the changes to your account.

ATTACHED IS A FULL EXPLANATION OF THE CHANGES TO YOUR ACCOUNT; PLEASE READ IT FOR MORE DETAILED INFORMATION ON THE CHANGES OUTLINED ABOVE.

file

RUSHING
[redacted]
Naples, Florida 34114

[redacted] = Redacted by the Permanent Subcommittee on Investigations

September 4, 2007

Certified Mail/Return Receipt Requested

FIA Card Services, N.A.
PO Box 17151
Wilmington, DE 19850

Re: Account Number: [redacted]
Account Name: Bonnie Rushing

This letter is in response to your undated notice of change of terms I received on September 1, 2007. Your letter specifies that consumers may only reject the "Default Pricing" change in terms. You do not explain on what basis you are able to limit our rejection to this one term. Regardless, I am rejecting ***all of the changes in terms*** as specified in the notice received, and as follows:

1. Reclassification of Balances and Transactions;
2. Default Pricing;
3. How FIA Calculates Variable Rates;
4. Transaction Fee Finance Charges;
5. Additional Changes to my Agreement Resulting from Reclassifying Balances and Transactions, including (i) Annual Percentage Rates; (ii) Calculation of Periodic Rate Finance Charges; (iii) When Periodic Rate Finance Charges Begin to Accrue and Grace Period; (iv) Calculation of Balances Subject to Finance Charge and Purposes for Using Your Account, Your Promise to Pay and Your Credit Limit/Your Revolving Credit Line; and
6. Arbitration and Litigation.

This account was closed by me in June, 2007. It is not subject to any changes. If it were, I would still reject all of the above proposed changes.

Thank you.

Sincerely,

Bonnie Rushing

cc: Ms. Jill Perry, Director of Banking Financial Services (w/enclosure)
Debra Baker, Comptroller of the Currency, Case #702047 (w/enclosure)

= Redacted by the Permanent Subcommittee on Investigations

Bank of America

Dear Bonnie Rushing,

RE: Changes to your credit card account ending in [redacted]

At Bank of America, we are committed to providing you with timely and relevant information regarding your account.

Enclosed is an *Important Notice of Change in Terms* for your Credit Card Agreement. To help you better understand these changes and how they may impact your account, we have provided a summary before each amendment. Please review these changes carefully so you can make informed decisions about your account including the possibility in some cases to reject the change.

New Offers: This January we are introducing enhancements to our system that will enable us to offer you the possibility of additional low-rate promotional offers. These will give us the flexibility to better support your financial needs and provide you choices which may from time to time include:

- √ Merchant specific offers
- √ Product specific offers
- √ Offers on large ticket transactions, until they are paid off in full
- √ Seasonal offers
- √ Multiple offers at one time

For your convenience, we offer many of our most requested services online for your immediate access at www.bankofamerica.com. Below are some of the services that may be available on your account:

- √ Make / Schedule Payments For Your Account
- √ Pay Other Bills / Schedule Recurring Payments
- √ Request a Copy of a Payment or Access Check
- √ Request a Credit Line Increase
- √ Schedule Alerts For Your Payment Due Dates
- √ Request a Replacement Card
- √ View / Download Recent Statement Information
- √ Change Your Address

You also have the option of accessing your account by calling the toll-free number on the back of your credit card.

Helpful Tips and Benefits. We would like your Bank of America credit card to be your card of choice. To assure you get the greatest possible value from your account, we have included some Tips to help you minimize your fees and finance charges. Also highlighted is a sample of the many Benefits your card has to offer.

See important Tips and Benefits on other side

Tips To Minimize Your Fees and Finance Charges

We are making every effort to help you get the greatest possible value from your credit card account. Below are some useful suggestions on how to minimize fees and finance charges.

Help keep the cost of credit down by paying on time and not exceeding your credit limit.

Did you know paying late or exceeding your credit limit will cause early expiration of promotional rates and may cause your APR to increase?

- Avoid Late Payments by checking the due date on your statement when it arrives as it may vary from month to month.
- Allow 5-7 days mail time for your payment to reach us.
- Ensure the fastest processing by using the remittance slip and envelope provided with your monthly statement.
- Avoid late payments by enrolling in our online automated payment service.
- Flexible online payment services available. Visit us online at **www.bankofamerica.com**.
- Payments made over the phone by 5:00 p.m. EST, 365 days a year, will be credited the same day. (A fee may apply for same day service.)

Avoid Overlimit Fees by never allowing your balance to exceed the credit limit shown on your monthly billing statement (leave room for finance charges). You can view your balance online or call us any time at the toll-free number on the back of your credit card.

Reduce your finance charges by paying more than the minimum amount due. While you have the flexibility to pay only the minimum amount due, you can significantly reduce your cost of credit by paying in full or making larger payments.

Remember, you can avoid finance charges on your retail purchases by paying the balance in full each month by your payment due date.

Contact us for assistance with your banking needs. We are available by phone 24 hours a day, 365 days a year to respond to your financial needs just by calling the toll-free number on the back of your credit card. Or visit us online at **www.bankofamerica.com** for up-to-the-minute information on transactions, payments and special offers.

Take Advantage of These Benefits

We encourage you to take advantage of all your credit card benefits and the wide variety of products and services **Bank of America** has to help you meet your financial needs.

World Class Fraud Protection. Your account is protected by **Total Security Protection®.** We continuously monitor your account for suspicious activity, and use rigorous online controls to ensure no unauthorized persons can access your data. Rest assured you will never have to pay for unauthorized use on your account.

Pay Your Account Online. Our service is fast and free.

Have your credit card manage your bills. For many recurring bills, like internet, cable TV, telephone service, highway toll pass, and even some utilities, you can request the billing company use your credit card for automatic payment. Think of the time savings and convenience of not having to worry about missing a payment.

More places to get cash. Your card is accepted at thousands of ATMs and banking centers around the world.

Emergency replacement of lost cards. We will deliver to you while traveling practically anywhere in the world.

Additional cards for family and friends. Simplify your life by adding a family member or friend to your account as an authorized user.

SEE YOUR CREDIT CARD AGREEMENT FOR COMPLETE DETAILS

[redacted] = Redacted by the Permanent Subcommittee on Investigations

The following information pertains to your account ending in [redacted]

IMPORTANT NOTICE OF CHANGE IN TERMS

This document contains important information regarding changes to the terms of your Credit Card Agreement ("Agreement") with us. Please read this document carefully and keep it with your Agreement. Except as amended below, the terms of your Agreement remain in full force and effect. In the event of a conflict, the terms in this Important Notice of Change in Terms ("Notice") will prevail.

Information included in this Notice:

- RECLASSIFICATION OF BALANCES AND TRANSACTIONS
- DEFAULT PRICING
- HOW WE CALCULATE VARIABLE RATES
- TRANSACTION FEE FINANCE CHARGES
- ADDITIONAL CHANGES TO YOUR AGREEMENT RESULTING FROM RECLASSIFYING BALANCES AND TRANSACTIONS
- ARBITRATION AND LITIGATION

RECLASSIFICATION OF BALANCES AND TRANSACTIONS

Summary: As of January 19, 2008, we are restructuring your existing account balances and how we classify new transactions on your account. With this change we will no longer refer to transactions by "balance category". Instead, we will refer to transactions as "Balance Transfers", "Cash Advances" or "Purchases". The chart below shows the previous balance category label as well as the newly-defined classifications. Please note that Cash Advances will include Cash Equivalents which had previously been classified in Category C, and will also include Check Cash Advances and Direct Deposits which were previously classified in Category A. We will reclassify existing Category D balances as a Balance Transfer, Cash Advance or Purchase, as appropriate.

Previous Category Classification	Newly Defined Classification
Category A – Balance Transfers and Check Cash Advances	Balance Transfers
Category B – ATM Cash Advances and Bank Cash Advances	Cash Advances
Category C – Purchases	Purchases
Category D – Other Balances	

The Amendments set forth in this Notice will not increase any promotional rates that may currently be applied to your account. As a reminder, Cash Advances and Balance Transfers do not have a grace period.

To enable this restructuring, we are making multiple changes to your Agreement.

Amendment: Effective on January 19, 2008, we are making the following changes to your Agreement:

- The section titled *Balance Categories* and any references to "balance category" are deleted in their entirety.
- All references in your Agreement to Category A, Category B, Category C, and Category D are deleted or otherwise modified as provided in this Notice. Generally, references to Category A will become "Balance Transfers", references to Category B will become "Cash Advances" and Category C will become "Purchases".
- The definitions for Balance Transfer, Cash Advance, and Purchase are amended and added to the section titled *How To Use Your Account* as follows:

  HOW TO USE YOUR ACCOUNT
  You may obtain credit in the form of Balance Transfers, Cash Advances, or Purchases by using credit cards, access checks, your account number, or other credit devices.

  "Balance Transfer" means a transfer of funds to another creditor initiated by us at your request. A Balance Transfer does not include a transaction that is otherwise a Cash Advance. Balance Transfers include Transaction Fees and adjustments associated with any Balance Transfer.

  "Cash Advance" means the use of your account for a loan obtained:
  (1) at an automated teller machine ("ATM Cash Advance");
  (2) by a transfer of funds to a deposit account initiated by us at your request ("Direct Deposit"). A Direct Deposit does not include an Overdraft Protection Cash Advance or a same day online funds transfer;
  (3) at any financial institution (e.g., to obtain cash, money orders, wire transfers, or travelers checks), by a same day online funds transfer to a deposit account, and at any non-financial institution (to obtain cash) ("Bank Cash Advance");
  (4) as part of an Overdraft Protection Program – a transfer of funds to a deposit account pursuant to an overdraft protection program ("Overdraft Protection Cash Advance");
  (5) to buy "Cash Equivalents" (i.e., foreign currency, money orders or travelers checks from a non-financial institution, or person to person money transfers, bets, lottery tickets, casino gaming chips, fines or bail bonds) with your card;
  (6) by an access check you sign as drawer ("Check Cash Advance");
  (7) for any payment you make to us that is returned to us unpaid for any reason, including the related finance charges ("Returned Payment").

  "Cash Advance" includes Transaction Fees and adjustments associated with any Cash Advance.

  "Purchase" means the use of your card or account number to:
  (1) buy or lease goods or services;
  (2) buy wire transfers from a non-financial institution ("Wire Transfer Purchase");
  (3) make a transaction that is not otherwise a Cash Advance.

  "Purchase" includes Account Fees, as well as Transaction Fees and adjustments associated with any Purchase.

- The following definitions in the section of your Agreement titled, *Words Used Often in this Agreement* are amended as follows:

  "Access check" means a check we provide to you to obtain credit on your account.

  "Default Rate" means the APRs which may be applied to Balance Transfers, Cash Advances, and Purchases without further notice

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0.065410--0.26-7.99-0.021890-PRIME-22.90-14.65-0.057739-99.99-0-DAXQ-N-PRIME-PRIME-8373-046373-0

in certain instances of your default, as described in the section titled, *Annual Percentage Rates*.

"New Balance Total" means the total billed amount as of the Closing Date of a billing cycle, as shown on your monthly statement. To determine the New Balance Total, we start with the total balance at the beginning of the billing cycle, which is the "Previous Balance". Then we subtract payments and credits. Then we add Balance Transfers, Cash Advances, Purchases and Adjustments, and finance charges.

"Promotional Offer" means limited time introductory or promotional offers on certain Balance Transfers, Cash Advances, or Purchases at APRs that are lower than the Standard Rates for those features ("Promotional Rates") and may be subject to other conditions. Promotional Offers may also include limited time introductory or promotional transaction fees ("Promotional Fees") which may be higher or lower than the standard fees provided in the section titled, *Transaction Fee Finance Charges*.

"Standard Rate" means the APRs normally in effect for Balance Transfers, Cash Advances, and Purchases.

"We", "us", "our", and "FIACS" mean FIA Card Services, N.A., also known as Bank of America.

DEFAULT PRICING

Summary: A provision for Default Pricing is being added to your account as described in the Amendment below. This Amendment does not change your Standard or Promotional APRs at this time. In the future, if you have had two instances of not paying on time and/or exceeding your credit limit in a rolling twelve month period, your account may be default re-priced to a higher rate without further notice. In the event your account becomes default re-priced, any APRs increased as a result of the re-pricing will be reduced a minimum of two percentage points after six consecutive months of on time payments, provided you pay at least the minimum amount due and your balance does not exceed the credit limit during the same period. You can avoid having your account default re-priced by paying on time and not exceeding your credit limit. **You may reject the addition of Default Pricing by following the Rejection Instructions below.** These Default Pricing provisions do not prevent or limit our ability to amend your Agreement in the future, including otherwise increasing any or all of your APRs to rates which exceed the Default Rate.

Amendment: Effective on the first day following your statement Closing Date that occurs on or after January 19, 2008, the Default Pricing provision is added as follows:

Default Pricing: We may increase the APRs on all new and outstanding Balance Transfer, Cash Advance, and Purchase balances up to the Default Rate, without giving you additional notice, each time you have two "default re-pricing events" in any twelve rolling consecutive billing cycles. A default re-pricing event means: (1) you fail to make any Total Minimum Payment Due by its Payment Due Date; or (2) your total outstanding balance exceeds your credit limit at any time in a billing cycle. We may elect to set your APRs for Balance Transfer, Cash Advance and Purchase balances to different Default Rates. Default Rates are variable rates calculated using the Variable Default Rate formula (described in this Notice) with a margin of up to 23.99 percentage points; as of July 31, 2007, this results in a corresponding **ANNUAL PERCENTAGE RATE of 32.24%** (0.088328% Daily Periodic Rate (DPR)). Each such APR increase will be effective as of the first day of the billing cycle in which the second default re-pricing event occurs. With each additional default re-pricing event, we will again determine whether there have been two default re-pricing events in the preceding twelve consecutive billing cycles. All Default Rates will remain in effect until you make each Total Minimum Payment Due by its Payment Due Date and do not exceed your credit limit for 6 consecutive billing cycles starting with the first billing cycle after the Default Rate is in effect. At that time we will lower the margin for each of these variable APRs by at least two percentage points. These will be your new variable Standard Rates.

Note: The Default Pricing provisions do not prevent or limit us from amending your Agreement, including otherwise increasing your APRs to rates which exceed the Default Rate.

Rejection Instructions for Default Pricing Amendment:
If you do not wish to accept the Default Pricing change described above, you must meet all of the following requirements:

1. **Write to us** at FIA Card Services, N.A., P.O. Box 17151, Wilmington, DE 19850. Clearly print or type your name and full credit card account number and state that you reject this change. You must give notice in writing; it is not sufficient to telephone us. Send this notice only to the address in this paragraph; do not send it with a payment or any other type of customer service request. **This mailbox is ONLY for rejection of the Default Pricing Amendment.**

2. **We must receive your letter by January 18, 2008** or your rejection will not be effective.

HOW WE CALCULATE VARIABLE RATES

Summary: We are changing the timing of when we determine the prime rate for your variable rates. The prime rate we select at the end of each month will be the highest prime rate published during the preceding three months, rather than the prime rate at the end of the month.

Amendment: Effective on the first day following your statement Closing Date that occurs on or after December 19, 2007, we are changing your variable rate formula as follows:

VARIABLE RATE INFORMATION
We will use the following variable rate formula for variable Standard Rates, variable Default Rates and variable Promotional Rates. All variable rates are calculated by adding together an index and a margin.

This index is determined on the last business day of each month ("determination date") and is the highest U.S. Prime Rate as published in the "Money Rates" section of The Wall Street Journal at any time within the immediately preceding three months, including the month in which the index was determined. The index used to calculate these variable rates is 8.25% and was determined on July 31, 2007.

An increase or decrease in the index will cause a corresponding increase or decrease in your variable rates on the first day of your billing cycle that begins in the same month as the determination date. An increase in the index means that you will pay higher periodic rate finance charges and have a higher Total Minimum Payment Due. If The Wall Street Journal does not publish the U.S. Prime Rate, or if it changes the definition of the U.S. Prime Rate, we may, at our sole discretion, substitute another index.

TRANSACTION FEE FINANCE CHARGES

Summary: Effective on January 19, 2008, we are changing how we refer to certain transaction fees currently applicable to your account. In addition, on March 10, 2008, we are increasing the amount of the transaction fee for Balance Transfers, Check Cash Advances and Direct Deposits.

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0.086410--0.26-7.99-0.021890-PRIME-22.90-14.65-0.062739-99.99-0-DAXQ-N- -PRIME-PRIME-8373-048373-D

Amendment: Effective on January 19, 2008:

- If you obtain a Balance Transfer, we will assess a transaction fee (FINANCE CHARGE) equal to 3% of the U.S. dollar amount of each such Balance Transfer (Fee: Min. $5; Max. $50). **Effective March 10, 2008,** we are increasing this transaction fee to 3% of the U.S. dollar amount of each such Balance Transfer (Fee: Min. $10).

- If you obtain a Check Cash Advance, we will assess a transaction fee (FINANCE CHARGE) equal to 3% of the U.S. dollar amount of each such Cash Advance (Fee: Min. $5; Max. $50). **Effective March 10, 2008,** we are increasing this transaction fee to 3% of the U.S. dollar amount of each such Cash Advance (Fee: Min. $10).

- If you obtain a Direct Deposit, we will assess a transaction fee (FINANCE CHARGE) equal to 3% of the U.S. dollar amount of each such Cash Advance (Fee: Min. $5; Max. $50). **Effective March 10, 2008,** we are increasing this transaction fee to 3% of the U.S. dollar amount of each such Cash Advance (Fee: Min. $10).

Note: Wire Transfer Purchases will continue to have a transaction fee which currently remains equal to the amount of the transaction fee for Cash Equivalents.

ADDITIONAL CHANGES TO YOUR AGREEMENT RESULTING FROM RECLASSIFYING BALANCES AND TRANSACTIONS

Summary: We are modifying certain terms of your Agreement to reflect terminology and account usage changes described in the section of this Notice titled, *"Reclassification of Balances and Transactions"*.

Amendment: Effective on January 19, 2008, we are revising the following sections of your Agreement:

ANNUAL PERCENTAGE RATES: This section of your Agreement will provide the Standard Rates, Default Rates and Promotional Offers applicable to Balance Transfers, Cash Advances, and Purchases.

- "Balance Transfers" will have the non-promotional APR applicable to "Category A Balance Transfers and Check Cash Advances".
- "Cash Advances" will have the non-promotional APR applicable to "Category B ATM Cash Advances and Bank Cash Advances".
- "Purchases" will have the non-promotional APR applicable to "Category C Purchases".
- The APR for "Category D Other Balances" will no longer apply to your account.

Promotional Offers: From time to time we may make Promotional Offers on certain Balance Transfers, Cash Advances, and Purchases. When a Promotional Offer ends, its Promotional Rates will terminate. Any Balance Transfer, Cash Advance, or Purchase balance subject to that Promotional Offer will return to its respective Standard Rate or Default Rate as applicable. In addition, we may from time to time offer variable Promotional Rates on your account using the Variable Promotional Rate formula described in this Notice.

CALCULATION OF PERIODIC RATE FINANCE CHARGES: We are replacing this section of your Agreement as follows: We calculate Periodic Rate Finance Charges by multiplying each Balance Subject to Finance Charge by its applicable DPR and that result by the number of days in the billing cycle. When Periodic Rate Finance Charges accrue on a Balance Transfer, Cash Advance, or Purchase balance, those finance charges become a part of that respective Balance Transfer, Cash Advance, or Purchase balance.

WHEN PERIODIC RATE FINANCE CHARGES BEGIN TO ACCRUE and GRACE PERIOD: References to "Category A Cash Advance(s)" and "Category A" are replaced with "Balance Transfer(s)"; references to "Category B Cash Advance(s)" and "Category B" are replaced with "Cash Advance(s)"; references to "Category C Purchase(s)" and "Category C" are replaced with "Purchase(s)".

CALCULATION OF BALANCES SUBJECT TO FINANCE CHARGE
Average Balance Method (including new Balance Transfers and new Cash Advances): References to "Category A balances and Category B balances" are replaced with "Balance Transfers, Cash Advances, and for each Promotional Offer balance consisting of Balance Transfers or Cash Advances". Also, references to "Pre-cycle Cash Advance balance" are replaced with "Pre-cycle balance"; and, references to "Cash Advances" are replaced with "Balance Transfers and Cash Advances".

Average Daily Balance Method (including new Purchases): References to "Category C balances and Category D balances" are replaced with "Purchases and for each Promotional Offer balance consisting of Purchases". Also, references to "transactions" are replaced with "Purchases".

PURPOSES FOR USING YOUR ACCOUNT, YOUR PROMISE TO PAY, and YOUR CREDIT LIMIT/YOUR REVOLVING CREDIT LINE: References to "Cash Advances" are replaced with "Balance Transfers and Cash Advances".

An important Amendment to the Arbitration and Litigation section of your Agreement follows.

Unless otherwise noted, we are making the Amendments in this Notice primarily because of a change in our business practices.

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Amendment: Effective November 30, 2007, the section of the Agreement titled, ***Arbitration and Litigation*** is replaced in its entirety with the following:

ARBITRATION AND LITIGATION

This Arbitration and Litigation provision applies to you unless you were given the opportunity to reject the Arbitration and Litigation provisions and you did so reject them in the manner and timeframe required. If you did reject effectively such a provision, you agreed that any litigation brought by you against us regarding this account or this Agreement shall be brought in a court located in the State of Delaware.

Any claim or dispute ("Claim") by either you or us against the other, or against the employees, agents or assigns of the other, arising from or relating in any way to this Agreement or any prior Agreement or your account (whether under a statute, in contract, tort, or otherwise and whether for money damages, penalties or declaratory or equitable relief), shall, upon election by either you or us, be resolved by binding arbitration. The arbitrator shall resolve any Claims, including the applicability of this Arbitration and Litigation Section or the validity of the entire Agreement or any prior Agreement, except for any Claim challenging the validity of the Class Action Waiver, which shall be decided by a court.

In addition, we will not choose to arbitrate an individual Claim that you bring against us in small claims court or an equivalent court, if any. But if that Claim is transferred, removed or appealed to a different court, we then have the right to choose arbitration.

Arbitration shall take place before a single arbitrator and on an individual basis without resort to any form of class action. Arbitration may be selected at any time unless a judgment has been rendered or the other party would suffer substantial prejudice by the delay in demanding arbitration.

The arbitration shall be conducted by the National Arbitration Forum ("NAF"), under the Code of Procedure in effect at the time the Claim is filed. Rules and forms of the National Arbitration Forum may be obtained and Claims may be filed at any National Arbitration Forum office, **www.arb-forum.com**, or P.O. Box 50191, Minneapolis, Minnesota 55405, telephone 1-800-474-2371. If the NAF is unable or unwilling to act as arbitrator, we may substitute another nationally recognized, independent arbitration organization that uses a similar code of procedure. At your written request, we will advance any arbitration filing fee, administrative and hearing fees which you are required to pay to pursue a Claim in arbitration. The arbitrator will decide who will be ultimately responsible for paying those fees. If you file a claim against us, in no event will you be required to reimburse us for any arbitration filing, administrative or hearing fees in an amount greater than what your court costs would have been if the Claim had been resolved in a state court with jurisdiction.

Any arbitration hearing at which you appear will take place within the federal judicial district that includes your billing address at the time the Claim is filed. This arbitration agreement is made pursuant to a transaction involving interstate commerce, and shall be governed by the Federal Arbitration Act, 9 U.S.C. §§ 1-16 ("FAA"). Judgment upon any arbitration award may be entered in any court having jurisdiction. The arbitrator shall follow existing substantive law to the extent consistent with the FAA and applicable statutes of limitations and shall honor any claims or privilege recognized by law. If any party requests, the arbitrator shall write an opinion containing the reasons for the award.

No Claim submitted to arbitration is heard by a jury or may be brought as a class action or as a private attorney general. You do not have the right to act as a class representative or participate as a member of a class of claimants with respect to any Claim submitted to arbitration (Class Action Waiver). The parties to this Agreement acknowledge that the Class Action Waiver is material and essential to the arbitration of any disputes between the parties and is nonseverable from this agreement to arbitrate Claims. If the Class Action Waiver is limited, voided or found unenforceable, then the parties' agreement to arbitrate (except for this sentence) shall be null and void with respect to such proceeding, subject to the right to appeal the limitation or invalidation of the Class Action Waiver. **The Parties acknowledge and agree that under no circumstances will a class action be arbitrated.**

This Arbitration and Litigation Section applies to all Claims now in existence or that may arise in the future. This Arbitration and Litigation Section shall survive the termination of your account with us as well as any voluntary payment of the debt in full by you, any bankruptcy by you or sale of the debt by us.

For the purposes of this Arbitration and Litigation Section, "we" and "us" means FIA Card Services, N.A., its parent, subsidiaries, affiliates, licensees, predecessors, successors, assigns, and any purchaser of your account, and all of their officers, directors, employees, agents and assigns or any and all of them. Additionally, "we" or "us" shall mean any third party providing benefits, services, or products in connection with the account (including but not limited to credit bureaus, merchants that accept any credit device issued under the account, rewards or enrollment services, credit insurance companies, debt collectors and all of their officers, directors, employees and agents) if, and only if, such a third party is named by you as a co-defendant in any Claim you assert against us.

YOU UNDERSTAND AND AGREE THAT IF EITHER YOU OR WE ELECT TO ARBITRATE A CLAIM, THIS ARBITRATION SECTION PRECLUDES YOU AND US FROM HAVING A RIGHT OR OPPORTUNITY TO LITIGATE CLAIMS THROUGH COURT, OR TO PARTICIPATE OR BE REPRESENTED IN LITIGATION FILED IN COURT BY OTHERS. EXCEPT AS OTHERWISE PROVIDED ABOVE, ALL CLAIMS MUST BE RESOLVED THROUGH ARBITRATION IF YOU OR WE ELECT TO ARBITRATE.

Federal law requires us to provide the following information:
YOUR BILLING RIGHTS
KEEP THIS NOTICE FOR FUTURE USE:
This notice contains important information about your rights and our responsibilities under the Fair Credit Billing Act.

Notify Us in Case of Errors or Questions About Your Bill: If you think your bill is wrong, or if you need more information about a transaction on your bill, write us on a separate sheet (or use a copy of the form provided on your bill) at FIA Card Services, N.A., P.O. Box 15026, Wilmington, DE 19850. Write to us as soon as possible. Do not send the notice on or with your payment. We must hear from you no later than 60 days after we sent you the first bill on which the transaction or error appeared. You can telephone us, but doing so will not preserve your rights. In your letter, give us the following information: (1) your name and account number; (2) the dollar amount of the suspected error; (3) the posting date of the transaction in question; and (4) a description of the error and an explanation, if you can, of why you believe there is an error. If you need more information, describe the item you are not sure about.

If you have authorized us to pay your credit card bill automatically from your savings or checking account with us, you can stop the payment on any amount you think is wrong. To stop the payment your letter must reach us three business days before the automatic payment is scheduled to occur.

Your Rights and Our Responsibilities After We Receive Your Written Notice: We must acknowledge your letter within 30 days, unless we have corrected the error by then. Within 90 days, we must either correct the error or explain why we believe the bill was correct.

After we receive your letter, we cannot try to collect any amount you question or report you as delinquent. We can continue to bill you for the amount you question, including finance charges, and we can apply any unpaid amount against your credit limit. You do not have to pay any questioned amount while we are investigating, but you are still obligated to pay the parts of your bill that are not in question.

If we find that we made a mistake on your bill, you will not have to pay any finance charges related to any questioned amount. If we did not make a mistake, you may have to pay finance charges, and you will have to make up any missed payments on the questioned amount. In either case, we will send you a statement of the amount you owe and the date that it is due.

If you fail to pay the amount that we think you owe, we may report you as delinquent. However, if our explanation does not satisfy you and you write to us within twenty-five (25) days telling us that you still refuse to pay, we must tell anyone we report you to that you have a question about your bill, and we must tell you the name of anyone we report you to. We must tell anyone we report you to that the matter has been settled between us when it finally is.

If we do not follow these rules, we cannot collect the first $50 of the questioned amount, even if your bill was correct.

Special Rule for Credit Card Purchases: If you have a problem with the quality of the property or services that you purchased with a credit card, and you have tried in good faith to correct the problem with the merchant, you may have the right not to pay the remaining amount due on the property or services. There are two limitations on this right:

(1) You must have made the purchase in your home state or, if not within your home state, within 100 miles of your current mailing address; and (2) The purchase price must have been more than $50.

These limitations do not apply if we own or operate the merchant, or if we mailed you the advertisement for the property or services.

RESPONSES TO SUPPLEMENTAL QUESTIONS FOR THE RECORD
FROM
SENATOR CARL LEVIN
to
RYAN SCHNEIDER
President for Card Services
Capital One Financial Corporation

HEARING ON
CREDIT CARD PRACTICES:
UNFAIR INTEREST RATE INCREASES

1. During the hearing, Bonnie Rushing testified that, in 2007, her interest rate increased from 8% to 23%, while Millard Glasshof testified that the interest rate on his closed account was increased from 15% to 27%,

   a. What is your maximum penalty interest rate? What is the maximum Interest rate your company will impose on a cardholder who is in compliance with the terms of their credit card agreement?

      ANSWER: Capital One's maximum interest rate is 29.99% for any account.

   b. Do you have any policies limiting the amount of an interest rate increase that can be imposed on a cardholder, such as a policy against doubling or tripling the interest rate of an existing cardholder?

      ANSWER: All customers who are default repriced go to the same default interest rate.

      For customers who are repriced for economic reasons, we do set limits on how large the increase can be. These limits vary depending on the customer's existing interest rate. Capital One considers these specific policies to be highly proprietary.

   c. Does your company allow the interest rate to be increased on a credit card account that is closed to new purchases but has a balance being paid off by the cardholder, or do you have a policy against increasing the interest rate on a closed account?

      ANSWER: No, if a customer is in the process of closing their account (the account is "coded to close"), we do not increase the interest rate on their account for economic reasons. However, if the customer defaults on their account by paying late twice within a 12-month period, they are eligible for default repricing.

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2. Many credit cards today carry variable interest rates linked to the prime rate.

   a. What percentage of your credit cards carry variable interest rates, and what percentage of those variable rate cards are linked to the prime rate?

      ANSWER: Capital One considers the mix of fixed and variable rates in our portfolio to be proprietary.

   b. How do you determine the specific prime rate in effect each month for the purpose of setting the variable interest rates on your credit cards? Please indicate, for example, whether you use the prime rate on a specific date, the highest prime rate during a specified period, or some other method.

      ANSWER: As noted in our current disclosures, the Prime Rate used to determine purchase and cash advance APRs is the rate published in the "Money Rates" section of *The Wall Street Journal* on the 25th day of each month.

3. In February and July 2007, Capital One determined to increase the interest rate on a number of its credit card holders, including cardholders who regularly paid their credit card bills on time. Two examples examined at the hearing were Linda Fox, whose interest rate was increased from about 8% to 13%, and Gayle Corbett, whose interest rate was increased from about 15% to 19%, even though both cardholders had paid their Capital One credit bills on time for years, Capital One later agreed to close both accounts to new purchases and apply prior interest rates to their existing credit card debt.

   a. Of the credit cards selected for interest rates increases in February and July 2007 as described above, what percentage had variable rates? What percentage of those variable rates were linked to the prime rate?

      ANSWER: Capital One did not reprice any variable rate accounts in February or July of 2007.

   b. Please describe the nature of the costs that Capital One passed on to its cardholders through the interest rate increases in February and July 2007. Please describe about what percentage of those costs were attributable to increases in the prime rate, and what percentage were attributable to other cost factors and describe those other cost factors. Please explain why costs attributable to increases in the prime rate were not already being compensated by the credit cards being variable interest rates.

      ANSWER: Over the past 12 months, the cost and risk associated with credit cards and other lending has increased substantially. As a result, Capital One repriced certain accounts in 2007 due to changing economic conditions. In all cases, these were accounts that had not experienced a market-based rate change of this type in over three years. The rates that we originally assigned

to these accounts were based on funding rates prevailing at the earlier time, which were significantly lower than current rates. By way of example, the prime rate in August 2002 was 4.75 percent. In September 2007, it was 8.03 percent. The increases were due to changes in the rates we pay to fund our loans which are correlated to changes in the Prime Rate. As noted in question 3a above, Capital One did not reprice any variable rate accounts, so the increases in the prime rate were not compensated for in that manner.

The lending environment was very different a few years ago when many of these accounts were opened. Given the unsecured and open ended nature of credit cards, we must reserve the right to change terms from time to time, which is clearly disclosed in our marketing disclosures and customer agreement.

We provided our customers with 45-days advance notice, well beyond what is required under current law, and clear communications regarding the changes and their options, through a stand alone notice.

We believe the new terms are still competitive, however, customers can opt to decline these changes. If they choose to do so, they can close their account and pay off their current balance under their original terms, over whatever timeframe they need.

4. When Capital One imposed higher interest rates on cardholders in February and July 2007, it assigned different interest rates to different cardholders, such as Linda Fox and Gayle Corbett.

    a. What criteria did Capital One's automated system use to select the interest rate that was imposed on a particular cardholder?

    <u>ANSWER</u>: Capital One's exact method for setting the new rate is proprietary, however, it is determined based on the current interest rate and the type of card the consumer owns.

    b. In selecting the interest rate to be imposed on a particular cardholder, did Capital One's automated system consider or take into account in any way a cardholder's FICO score or credit report as provided by one or more of the credit bureaus? If so, please explain.

    <u>ANSWER</u>: A cardholder's FICO score or credit report had no bearing on the decision to reprice an account and was not considered in any way.

5. When a cardholder is notified of an interest rate increase, the notice often provides the cardholder with an opportunity to "opt out" of the increase by closing the credit card account and paying off the existing credit card debt at the existing interest rate.

    a. What percentage of your cardholders who are offered the opportunity to opt out of an interest rate increase actually invoke the opt out procedure?

    ANSWER: Capital One considers the exact number of cardholders who opt out of an increase as proprietary, however, that number is less than 10%.

    b. At the hearing, Bank of America indicated that almost 90% of its cardholders did not invoke the available opt out procedure to avoid an interest rate increase. Possible explanations for this high percentage include that the affected cardholders did not receive the notice of the interest rate increase; that they receive the notice but did not see or understand how to invoke the opt out procedure; that they did not have sufficient time to invoke the opt out procedure or that they saw and understood the opt out procedure but were willing to accept the high interest rate. Have you conducted or are you aware of any research into the reasons why cardholders do not invoke an opt our procedure to avoid an interest rate increase? If so, please describe the nature of that research and its results.

    ANSWER: We have not done any research on why people do or do not opt-out. As demonstrated in hearing, Capital One's change in terms notice and its opt-out procedure achieved industry-leading levels of clarity and simplicity. Further, Capital One believes that its products continue to provide an attractive and competitive value proposition to our customers even after the repricing.

6. The opt out procedure offers an important safeguard to protect consumers from the substantial, unplanned interest rate increase. Many cardholders have told the Subcommittee, however, that they were unable to take advantage of the opt out procedure, because they did not receive notice of it, they missed the deadline, or the opt out procedure itself was confusing or cumbersome.

    a. Do you have any recommendations or plans underway for making the opt out procedure easier to use for cardholders?

    ANSWER: As we noted in our testimony, Capital One is very proud of the industry-leading clarity and prominence of our opt-out notice to customers, a sample of which we provided for the record. Given that it is very clear and conspicuous, we have no plans to alter it at this time.

    b. Would it be feasible to include the notice of an interest rate increase on a cardholder's billing statement in large, bold type; to have that notice show both the existing and proposed interest rates next to each other and the amount of

finance charge due under both rates; to include an explanation of how to opt out of the increase; and to require the opt out decision to be made by the billing statement's due date?

ANSWER: In Capital One's February 2007 repricing we delivered the message in customers' monthly billing statements, using a clear and conspicuous disclosure. The notice itself did not include the existing rate, however, the existing rate was easily available on the statement given that the repricing was not yet in effect. In addition, Capital One's notice included a prominent message about how to opt out of the increase by calling a toll free number. Finally, our opt-out period is longer than a single billing cycle in all cases, so making the opt-out by the due date would significantly shorten the opt-out period.

c. The Federal Reserve has recommended that credit card issuers provide 45 days notice before increasing an interest rate. Would it be feasible for the 45-day notice period to end on the due date of the billing statement in which the notice described above appears?

ANSWER: This is not feasible with a 45 day opt-out. It would be feasible with a 25 or 30 day opt-out. As noted above, for Capital One, that would significantly shorten the opt-out period.

d. To make it easier for a cardholder to invoke the opt out procedure, would it be feasible to allow the cardholder to inform your company online, by calling a customer service representative by telephone, or by including a written document with their monthly payment?

ANSWER: Capital One's current opt-out process involves notification using a toll free telephone number, which is prominently disclosed on the notice and very easy to use. It would also be feasible to allow customers to use an on-line notification process. Including a written document with their monthly payment would be very difficult given our system for processing payments in a timely manner.

e. Would it be feasible to allow a cardholder to opt out of an interest rate increase at any time after receiving notice of that increase, so long as the cardholder did not use the credit card to make a new purchase?

ANSWER: No, this would not be feasible under Capital One's systems.

7. Currently, if a cardholder violates the terms of a credit card agreement and is assessed a penalty interest rate, most credit cards issuers offer the cardholder an opportunity to "cure" their misconduct and recover their prior interest rate by paying their credit card bills on time for a specified number of months. No parallel procedure now exists to help cardholders whose interest rates are increase for reasons unrelated to a penalty. Are you currently considering instituting a cure procedure for cardholders whose interest rates are increased even though they are in compliance with their credit care agreements and, if so, please describe the nature of that procedure and when you plan to test and implement it?

ANSWER: No, we are not currently considering instituting a cure procedure for cardholders who have been subject to economic repricing. As we noted in our testimony, we do offer a cure policy for customers subject to default repricing. If the customer pays on-time for a 12 month period, they are automatically brought back to their prior interest rate. The purpose of default repricing is to offset increases in risk. If customers can prove they are not risky we can undo that repricing. With respect to non-penalty repricing, or economic repricing, that pricing is meant to offset increases to our cost of funding, and consequently a cure policy is not appropriate. If economic conditions become more favorable for consumers in the future (e.g., a general decrease in interest rates such as that which occurred in the late 1990s and early 2000s), such customers are likely to receive offers with improved terms, including lower APRs.

RESPONSES TO SUPPLEMENTAL QUESTIONS FOR THE RECORD
FROM
SENATOR CLAIRE McCASKILL
to
RYAN SCHNEIDER
President for Card Services
Capital One Financial Corporation

HEARING ON
CREDIT CARD PRACTICES:
UNFAIR INTEREST RATE INCREASES

1. Has your company ever participated in the practice of selling discharged debts in bankruptcy to third-party debt buyers?

   ANSWER: **Capital One does not intentionally sell debts that have been discharged in bankruptcy to third-party debt buyers.**

2. Has your company ever contacted former account holders discharged in bankruptcy to try and collect a discharged debt or attempted to encourage the account holder to reaffirm the discharged debt?

   ANSWER: **Capital One does not intentionally collect from accounts that were discharged in bankruptcy, nor do we encourage account holders to reaffirm discharged debt. The only two circumstances in which Capital One would attempt to collect on a debt discharged in bankruptcy would be:**

   1. If we were never notified of the bankruptcy.
   2. If the notice was received but processed incorrectly. This occurs when the bankruptcy notice contains incorrect or missing consumer information (e.g. social security number or address) that prevents us from correctly matching the notice to a customer record in our system.

   In these cases, we may unknowingly attempt to collect. However, once the customer alerts us to having filed for (or discharged from) bankruptcy, the customer is placed into a "Pending Bankruptcy" status that is intended to stop all future collection efforts.

   In 2004, Capital One commenced a process to receive bankruptcy notices electronically in order to mitigate the risk of improper notifications. That electronic process was fully implemented in 2005; these process improvements provide much greater protections in this arena.

RESPONSES TO QUESTIONS FOR THE RECORD
FROM THE
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
to

ROGER C. HOCHSCHILD
President and Chief Operating Officer
Discover Financial Services

HEARING ON
CREDIT CARD PRACTICES:
UNFAIR INTEREST RATE INCREASES

We are pleased to respond to the follow-up questions from Senators Levin and McCaskill, and to provide further information responsive to issues raised at the December 4, 2007 hearing.

A. Responses to Issues Raised at Hearing

The Subcommittee's hearing focused on the experience of a single Discover Cardmember, Janet Hard, who testified at the hearing. We were not aware of the specifics of Mrs. Hard's testimony prior to her appearance, and are providing information that will help the Subcommittee better understand our policies and how they affected Mrs. Hard, whose account APR was temporarily increased when her risk profile deteriorated, and lowered as it improved.

Millions of Discover Cardmembers have family and financial situations that resemble those of Mrs. Hard. These individuals work hard to support their families and pay their bills, and sometimes rely on consumer credit to bridge the gap between paychecks. In the vast majority of cases, their responsible use of the credit provided by Discover - and other lenders - is rewarded through lower interest rates and lower fees, credit availability when it is needed, Cashback Bonus rewards, and other benefits. These customers do not experience APR increases based on risk, because they are both good Discover Cardmembers and good credit risks. Discover's use of risk-based pricing benefits these low risk individuals, while allowing us to continue providing credit, sometimes at a higher APR, to the small percentage of customers who are not. This is the best - and fairest - way to do the right thing for all Discover Cardmembers.

The following summarizes the basis for the pricing adjustments (APR increases and reductions) on Mrs. Hard's Discover account.

Type of account. The account, at all times, was held solely by Mrs. Hard, and not jointly with her husband. Mrs. Hard became a Discover Cardmember in April 2001. Based on information she provided about her income and finances, and information we obtained

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about her from credit bureaus (e.g., a FICO score of 768), the account was opened, in her name, with an initial credit line of $ 10,000 and a variable interest rate. At the time of account opening the APR for purchases was 14.99%.

As requested by Mrs. Hard, her husband, William, was listed as an authorized account user. Regulations implementing the Equal Credit Opportunity Act require that accounts on which a spouse is an authorized user be reported to consumer reporting agencies in the names of both parties, so William Hard's name was included on the address line of the periodic statements, and Discover reported the account under both names to the credit bureaus. However, authorized users are reported as such (not as account holders) and the reporting does not convert an account to a joint obligation. In this case, payment responsibility continued to be Mrs. Hard's.

Reduced Income/Debt Accumulation. Mrs. Hard stated at the hearing that she elected to stop working at some point after opening her Discover account to spend time with her family. She said that this resulted in "significantly less income," and stated that she planned to use credit cards "to make ends meet when we needed to" in the expectation that when her children grew older, her family income could increase and be used to pay off the "accumulated debt." *Information about Mrs. Hard's voluntary income reduction and her plan to accumulate credit card debt, was not available to Discover, and was not used to establish or re-adjust the account's APR or credit limit.*

Usage of the Account.

(a) ***Late payments to Discover.*** *Mrs. Hard made three late delinquent payments on the account in 2004.* Additional information about these delinquencies is provided below in response to Senator Levin's follow-up Question 1. In each instance, payments were received before the subsequent months' payment due dates. Although late fees were assessed (one was later credited back at Mrs. Hard's request), the account was not reported to credit bureaus as delinquent (because the late payments were less than 30 days past due). Moreover, because other information about Mrs. Hard's credit usage at the time did not signal deterioration in her creditworthiness, *Discover did not invoke the contract provision that would have increased the APR on the account because of these defaults.*

(b). ***Minimum Payments.*** *Beginning in February 2005, payments made on Mrs. Hard's account were regularly made in amounts that were at or just above the minimum payment level.* Creditors view the persistent making of payments at or close to the minimum as a sign of increased risk.

Bank regulators require that minimum payments be set high enough to amortize the account balance, so that the compounding of interest and the addition of fees does not result in negative amortization and impair the ability to pay off the loan. Congress, too, has recognized that making only the minimum payment is a behavior that should be avoided, because it can significantly increase the total borrowing cost. It amended the Truth in Lending Act in 2005 to require credit card lenders to provide a prominent

warning about the costs of making only minimum payments on every periodic statement, and to furnish estimates of the costs of paying off the current balance if only minimum payments are made.

(c). *Growth in Credit line Utilization.* Another risk factor that creditors monitor closely is the extent to which the borrower utilizes his or her available credit lines. Borrowers whose purchase and payment activity keeps the account balance at high levels represent a higher charge off risk than those whose credit line utilization is lower. Borrowers with high credit utilization with multiple creditors represent a demonstrably greater risk. In Mrs. Hard's case, *the combination of purchase activity and relatively small payments resulted in a growth in the utilization of her Discover credit line over time - from 2.25% in 2004 to 97.25% in March 2006. Her credit line utilization on active accounts with other creditors grew to 66.14% by March, 2006.*

(d) Purchase Activity on Account. *The growth in the account balance was principally attributable to purchases made by Mrs. Hard at a time when small monthly payments were being made.* For example, in 2005, Mrs. Hard charged purchases in the amount of $10,165.33 to her Discover Card, while making payments of $ 1,941.91 (i.e., spending was about five times greater than payments). For the first four months of 2006 (preceding the APR increase), Mrs. Hard made purchases in amount of $1253.42, and payments of $996.26 (i.e., new purchases exceeded payments by about 120%). No credit card user can achieve the goal of "paying off accumulated debt" - regardless of the interest rate on the account - if they continually increase the amount of their indebtedness through new purchases, while making payments that do not reduce the loan principal.

Usage of Credit Extended by Others

Mrs. Hard's use of credit provided by others also changed significantly after she became a Discover Cardmember. This was reflected in a significant deterioration in her FICO score which correlated directly and demonstrably with increased default risk. In April 2004, her score was 724 (just above the median FICO score). It dropped to 678 in April 2006 and declined further (to 623 - well into the subprime category) by July 2006. According to statistical information developed by one of the major credit reporting agencies, an account with a 724 FICO score has a 0.9 chance of charging off. When the score drops to 678, the charge-off probability goes up to 4.9% - i.e. the risk increases by nearly 500%. And when, as in Mrs. Hard's case, the score drops by more than 100 points to 623, the probability of charge-off grows to 9.8% - close to a 1000% increase.[1]

[1] The computation of the FICO score is proprietary to Fair Isaac & Co., the company that developed this risk management tool, and details about the account usage behaviors that are factored into the computation of a score assigned to a specific account are not divulged to creditors. Indeed, creditors who utilize FICO scores are prohibited by contract from attempting to ascertain these specifics (by "reverse engineering" the score) or the formula by which they were weighted and combined into a final score. However, according to Fair Isaac, the score is based on the following components (with the approximate weighting shown): payment history (35%); amounts owed (30%); length of credit history (15%); new credit lines (10%); and types of credit used (10%). Although FICO scores are sometimes believed to be a proxy for payment behavior, or driven principally by payment history, this is not the case: payments account for about one-

The credit bureau information relied on by Discover in 2006 showed the primary factors influencing her declining FICO score were: high credit utilization ("proportion of balance to credit limit is too high on bank revolving accounts"), followed by delinquencies on multiple accounts, and the level of delinquencies (i.e., the number of months the accounts remained delinquent).

Increase in Account's APR. Discover does not automatically re-price an account based on changes in a Cardmember's FICO score. Millions of Cardmembers experience credit score declines in any given month, but account reviews or risk-based price changes are not triggered by those changes. Moreover, when risk-based changes are made, they do not apply to all accounts that have experienced an impairment in risk scores. When a risk-based repricing occurs, Discover's risk models consider FICO scores, combined with information about the Discover account usage and other data, in identifying accounts that should be included among those subject to the repricing, and in arriving at the appropriate APR for accounts that are selected. Discover used this information in making the decision to include Mrs. Hard's account in a small segment of accounts selected for an APR increase in March 2006.

Change of Terms and Opt-Out Notice to Mrs. Hard. An adverse decision (like increasing the APR on an account) obligates a lender to provide prior notification to the borrower or applicant of the reasons for the adverse action. If the decision was based in part on information obtained from a consumer reporting agency (like a FICO score), the law requires that the individual be informed of that fact, and of their right to obtain additional information about the reasons for the decision, and to dispute incomplete or erroneous credit bureau information that may have been used in the decision making.

This information was communicated to Mrs. Hard in a change of terms notice mailed to her home in February 2006. This notice was sent separately from Mrs. Hard's monthly (online) account statement. It notified Mrs. Hard of the intent to increase the APR on the account, effective in April 2006, that the decision was based in part on information obtained from a credit bureau, and the right to dispute that information. It also advised Mrs. Hard of her right to "opt out" of the APR increase.

The next month, apparently in reaction to the notice, Mrs. Hard made a large payment on the account ($1500). This followed 14 months of making only minimum payments. However, Mrs. Hard did not elect to close her account and opt out of the increase, which would have allowed her to make payments over time at the "old" APR. Indeed, her account remains open and Mrs. Hart continues to be a Discover customer.

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third of the score, and a FICO score can move up or down based on changes in the components that account for the other two-thirds of the score even when there are no payment delinquencies.

Actions by Mrs. Hard After APR Increase Notice; APR Reduction

In the months following the April 2006 APR increase, positive changes in Mrs. Hard's payment activity, account usage and FICO score occurred. As noted, a $1500 payment was made on the account in the month following the APR change notice. This decreased the outstanding loan balance by about 15%, reduced the credit line utilization, and lowered the minimum payment. Purchase activity on the account was significantly curtailed, ending the pattern of making purchases on the account that exceeded payments. With one exception, monthly purchases after the APR change dropped to under $8, and have remained there. In combination with higher larger payments, this results in a more rapid reduction in the account balance each month. And, as noted previously, Mrs. Hard's FICO score improved significantly.

In June 2007, Mrs. Hard requested an APR reduction. At this time, her FICO score had improved to 713, and her purchase activity and credit line utilization had been reduced. The APR was reduced to 20.99%. In November 2007 (at which point Mrs. Hard's FICO score had further improved to 741), she requested an additional APR decrease. The APR was reduced to a fixed APR of 17.99%.[2]

Impact of APR Increase

The April 2006 risk-based APR increase remained in effect for less than a year. Within 17 months the APR had been reduced to a level below where it was before the repricing occurred. The risk-based repricing appears to have motivated changes in Mrs. Hard's credit usage and payment practices that, in turn, improved her risk profile and made her eligible for a lower APR. Together, these changes have put her on the road to debt reduction.

The APR increase applied to Mrs. Hard's account does not represent the experience of the typical Cardmember. Risk-based price increases for Discover Cardmembers are the exception not the rule. But their use allows greater numbers of individuals to qualify for credit, and for those who become Discover Cardmembers and use credit wisely to pay less. Individuals who use their Discover account and credit extended by others in a manner known to correlate with increased risk may be subjected to a risk-based APR increase. In all such cases, they have a right to opt out of the increase prior to its implementation.

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[2] Mrs. Hard mentioned at the hearing that after the APR on the account had gone up, Discover increased her credit line. This credit line increase (of $1000) did not occur until July, 2007, 14 months after the account APR had been increased. By that time, Mrs. Hard's FICO score had improved significantly, her monthly purchases had been reduced to a few dollars, and her Discover credit line utilization had begun to decrease. The additional credit availability (which has not been used) resulted in a further decrease in credit line utilization, a positive development from the perspective of Mrs. Hard's credit profile.

B. Responses to Follow-up Questions from Senator Levin

1. During the hearing, Mr. Hochschild indicated that Janet Hard paid her credit card bill late three times in 2004, but Discover did not increase her interest rate in response to those late payments. Ms Hard told the Subcommittee that she does not recall ever being late in paying her Discover bills, and that she was not assessed any late fee. Her November 2007 Transunion credit report states that Ms. Hard was not late in making payments on her Discover card account during the past 48 months. Please provide documentation, including copies of relevant 2004 credit card billing statements and any related correspondence, notes of 2004 telephone conversations, and internal memoranda or other documentation, indicating the three dates in 2004 on which Ms. Hard is alleged to have paid late, the dates on which she actually made payments to Discover during the relevant three months, the dates and amounts of any late fees assessed by Discover, whether any such late fees were waived, and why Discover decided on each occasion not to raise her interest rate.

   Response: Information about Mrs. Hard's three late payments to Discover is attached. One payment was received 9 days late, another 3 days late. The third came in 2 days late, but in an amount below the minimum required. Late fees were assessed for the three late payments, and are shown on the following months' periodic statements. In one case, Mrs. Hard's account was credited for this fee in the subsequent billing period after she requested that it be waived.

   Because payments were received before they were 30 days past due, the account was not reported as delinquent to credit reporting agencies. Discover does not report such delinquencies to credit reporting agencies. Credit reports show accounts delinquent by 30 days or more, and Discover reports as delinquent accounts that meet this criterion. (There is, nevertheless, a popular misconception that information about minor delinquencies is promptly furnished to credit bureaus where it is reported on customers' credit reports, drives down FICO scores, and is the basis for changing the APRs on accounts.)

2. During the hearing, Bonnie Rushing testified that, in 2007, her interest rate increased from 8% to 23%, while Millard Glasshof testified that the interest rate on his closed account was increased from 15% to 27%.

   a. What is your maximum penalty interest rate? What is the maximum interest rate your company will impose on a cardholder who is in compliance with the terms of their credit card agreement?

   Response: To clarify, Ms. Rushing and Mr. Glasshof held cards issued by other banks. Their APRs were initially increased by 15 percentage points and 12 percentage points. Janet Hard experienced a temporary APR increase of 5.5

percentage points. At the time of the increase her APR went from 18.24% to 23.74%.

Discover's maximum interest rate is currently 28.99%, and both default-based and risk-based APR increases are subject to that limit. Risk-based APR increases may be set at a lower level (as in Mrs. Hard's case), based on the circumstances of an individual accountholder. As Mrs. Hard's case also illustrates, defaults do not necessarily trigger an APR increase, and when they do, the APRs may be set at a rate below the maximum, based on the credit profile of the customer at the time of the default.

b. Do you have any policies limiting the amount of an interest rate increase that can be imposed on a cardholder, such as a policy against doubling or tripling the interest rate of an existing cardholder?

Response: Variable rate credit cards adjust the APR based on changes in the Prime Rate, so the APR increase is limited by the amount of the increase in Prime. For APR increases based on a customer default, Discover sets the default rate a specified number of basis points above the pre-default APR, so the percentage increase depends on the APR that was in effect at the time of the customer's default. (A customer with a low introductory APR who defaults will experience a higher percentage increase than a customer whose pre-default APR is higher.) The amount of a risk-based APR increase is also tied to the pre-default APR, and is set a specified number of basis points above that rate.

c. Does your company allow the interest rate to be increased on a credit card account that is closed to new purchases but has a balance being paid off by the cardholder, or do you have a policy against increasing the interest rate on a closed account?

Response: An account that is closed is subject to the terms in effect before the closure (e.g., if the card carries a variable APR, it is subject to changes in the APR based on changes in the Prime Rate). Closed accounts are not subject to risk-based repricing.

3. Many credit cards today carry variable interest rates linked to the prime rate.

a. What percentage of your credit cards carry variable interest rates, and what percentage of those variable rate cards are linked to the prime rate?

Response: All of Discover's variable rate cards are linked to the Prime Rate. The percentage of accounts that carry variable rates changes over time (e.g., accounts opened, or balances transferred, with low-APR fixed rates change to variable rate cards when the introductory/promotional rate expires). The percentage of cards in the portfolio that carry variable rates at a specific point in time is nonpublic information.

b. How do you determine the specific prime rate in effect each month for the purpose of setting the variable interest rates on your credit cards? Please indicate, for example, whether you use the prime rate on a specific date, the highest prime rate during a specific period, or some other method.

Response: As set forth in the Discover Cardmember Agreement, "the Prime Rate is the highest rate of interest listed as the "prime rate" in the Money Rates section of the *Wall Street Journal* on the last business day of the month."

4. At the hearing, you indicated that one factor that could cause a cardholder's interest rate to be increased is if that cardholder were to receive a lower FICO score as reported by a credit bureau.

   a. Does a FICO score have to fall by a designated amount, such as by 20 or 30 points, before your automated system will review whether the cardholder's account should receive an interest rate increase, or could a FICO score that falls by as little as 1 point trigger an interest rate review? If a FICO score has to fall by a designated amount before an interest rate review in triggered, what is that designated amount? Has that designate amount been the same since January 1, 2005, and if not, how has it changed since then?
   b. Does a FICO score have to fall below a designated level, such as 650 or 700, before your automated system will review whether the cardholder's account should receive an interest rate increase, or could a FICO score at any level trigger an interest rate review? If a FICO score has to fall below a designated level before an interest rate review is triggered, what is that level? Has that level been the same since January 1, 2005, and if not, how has it changed since then?
   c. Given your criteria for when a lower FICO score will trigger an automated interest rate review of a cardholder's account, is it sufficient for just one credit score reported by a credit bureau to meet those criteria or would the credit scores reported by all three credit bureaus have to meet the criteria before an automated interest rate is triggered?
   d. If a credit bureau were to report a FICO score increase for a cardholder, is your automated system currently set up so that this higher FICO score would trigger an automated interest rate review that could result in a reduced interest rate for that cardholder? If so, please describe the criteria that would trigger an automated interest rate review under these circumstances. If not, please describe any concrete plans to develop this type of automated interest rate review.

Response: Changes in a customer's FICO score do not cause a Discover Cardmember's interest rate to change. There is no automated system that readjusts APRs based on movements in FICO scores, or that triggers a review of an account based on changes in FICO scores. Cardmembers' FICO scores vary continually, but risk-based pricing changes are made periodically and do not track score fluctuations. Credit scores are used in our pricing models based on their statistically-relevant ability to predict likely payment behavior, so a change in a risk score would not impact a risk-based pricing decision if it was not deemed predictive of risk.

5. The cardholders at the hearing had their interest rates increased despite payment histories showing that they consistently paid the credit card bills you sent them on time, paid at least the minimum amount due, and did not exceed the credit limits on their accounts. When assessing a cardholder's credit risk and whether the cardholder should be assessed a higher interest rate, why does your automated system currently place more weight on a cardholder's FICO score than on the cardholder's actual payment history with your company?

Response: Discover does not automatically adjust APRs based on changes in a FICO score. FICO scores are an element of the risk-based pricing models we use because they are effective in predicting default risk, and demonstrably so (the Equal Credit Opportunity Act requires that scoring models be "empirically derived and statistically sound"). Issuers have long known that default risk cannot be gauged solely on a cardholder's payment history with one issuer. For example, accountholders regularly file for bankruptcy (and have their debt discharged) even though the individual never previously missed a payment with Discover. The ability to look at a cardholder's experience with other lenders is an important tool for identifying "good" customers whose default risk has increased.

In the past, creditors used so-called "judgmental" systems to predict default risk. These relied on individual analysts' reviews of information about borrowers and their "expertise" in spotting characteristics thought to relate to risk. These systems were imprecise, requiring issuers to set higher across-the-board approval thresholds and higher APRs to make up for the defects. Judgmental systems were also criticized by regulators and lawmakers as subjective, and prone to individual evaluator bias. Risk-scoring models, based solely on objective information, including FICO scores, relevant to an individual's use of credit, address both the lack of precision and concerns about objectivity and fairness.

6. When a cardholder is notified of an interest rate increase, the notice often provides the cardholder with an opportunity to "opt out" of the increase by closing the credit card account and paying off the existing credit card debt at the existing interest rate.

   a. What percentage of your cardholders who are offered the opportunity to opt out of an interest rate increase actually invoke the opt out procedure?

Response: Our experience is consistent with the information provided by Bank of America: most Discover cardholders do not elect to close their accounts and make payments at the prior APR.

b. At the hearing, Bank of America indicated that almost 90% of its cardholders did not invoke the available opt out procedure to avoid an interest rate increase. Possible explanations for this high percentage include that the affected cardholders did not receive the notice of the interest rate increase; that they received the notice but did not see or understand how to invoke the opt out procedure; that they did not have sufficient time to invoke the opt out procedure; or that they saw and understood the opt out procedure but were willing to accept the higher interest rate. Have you conducted or are you aware of any research into the reasons why cardholders do not invoke an opt out procedure to avoid an interest rate increase? If so, please describe the nature of that research and its results.

Response: We are not aware of research on the reasons an individual does not exercise the right to opt out. This is based on the different circumstances, perceptions, and preferences of individual consumers.

7. The opt out procedure offers an important safeguard to protect consumers from substantial, unplanned interest rate increases. Many cardholders have told the Subcommittee, however, that they were unable to take advantage of the opt out procedure, because they did not receive notice of it, they missed the deadline, or the opt out procedure itself was confusing or cumbersome.

a. Do you have any recommendations or plans underway for making the opt out procedure easier to use for cardholders?

Response: We regularly evaluate procedures like this, particularly in response to input from Cardmembers. Although Discover receives a considerable volume of inquiries and requests (e.g., over 30 million telephone contacts with Cardmembers in 2007), complaints about the opt out procedure for APR increases are rarely received. Our current procedures effectively provide 30 days for Cardmembers to opt out.

b. Would it be feasible to include the notice of an interest rate increase on a cardholder's billing statement in large, bold type, to have that notice show both the existing and proposed interest rates next to each other and the amount of finance charge due under both rates; to include an explanation of how to opt out of the increase; and to require the opt out decision to be made by the billing statement's due date?

Response: The longstanding requirement that change of terms notices be sent separately from billing statements is designed to enhance the likelihood that notices come to the attention of the consumer. Given the detailed information currently contained in periodic statements, and the way consumers use those statements, it is not clear that communicating this option through a billing statement notice would be more effective. A billing statement notice would have to be barmonized with existing disclosure requirements (e.g., the Truth in Lending Act mandate that the APR disclosure must be the "most conspicuous")

and new disclosures currently being implemented by the Federal Reserve (e.g. conspicuous disclosures about payment dates, late fees, and the consequences of making minimum payments).

c. The Federal Reserve has recommended that credit card issuers provide 45 days notice before increasing an interest rate. Would it be feasible for that 45-day notice period to end on the due date of the billing statement in which the notice described above appears?

Response: Because there are multiple billing cycles each month, we generally make changes effective for billing periods that begin after a specified date, rather than tying the change to the date of each specific billing statement.

d. To make it easier for a cardholder to invoke the opt out procedure, would it be feasible to allow the cardholder to inform your company online, by calling a customer service representative by telephone, or by including a written document with their monthly payment?

Response: We currently accommodate opt out requests that are received through various channels, but do not believe that this should be a mandate. Opt out requests sent via calls to customer service lines, notes on enclosures with periodic statements, or emails (for customers who pay online) will inevitably lead to processing errors, delays, disputes, and litigation. Congress has required other important consumer requests (e.g., credit card billing error disputes) to be communicated in writing.

e. Would it be feasible to allow a cardholder to opt out of an interest rate increase at any time after receiving notice of that increase, so long as the cardholder did not use the credit card to make a new purchase?

Response:

The opt out procedure is intended to provide the consumer a reasonable time period to decide whether to accept or reject the change, and it is not necessary to provide an unlimited timeframe for that decision. APR changes, whether based on default or risk, are made because the underwriting assumptions on which the APR was originally set have changed. If this increases the odds that the outstanding balance will not be repaid, lenders should be allowed to react to the changes in a reasonable time.

8. Currently, if a cardholder violates the terms of a credit card agreement and is assessed a penalty interest rate, most credit card issuers offer the cardholder an opportunity to "cure" their misconduct and recover their prior interest rate by paying their credit card bills on time for a specified number of

months. No parallel procedure now exists to help cardholders whose interest rates are increased for reasons unrelated to a penalty. Are you currently considering instituting a cure procedure for cardholders whose interest rates are increased even though they are in compliance with their credit card agreements and, if so, please describe the nature of that procedure and when you plan to test and implement it?

Response: Yes. See discussion on p.15 of Discover's written hearing statement. Devising an "automatic" cure for risk-based APR increases is more difficult tban implementing the system we use to allow Cardmembers to "cure" default-based increases. While default based increases are based on specific behaviors (e.g., missed payments) that can be readily changed by the borrower and measured by the lender, there may be multiple reasons underlying deteriorations in credit risk, some of wbich are not based on usage of the account or on other behavior that can be readily changed.

For example, automatically lowering a risk-based APR if the customer makes a specific number of on-time payments may be inappropriate if late payments were not the reason for the original determination that risk had increased. The customer's creditworthiness (and risk score) may have weakened for reasons unrelated to the usage of the Discover account: a large spike in credit utilization or drop in payments, the addition of multiple new credit lines, changes in the type of loans held by the consumer, the filing of a judgment or the commencement of a wage garnishment against the consumer. In that situation, the increased risk is not "cured" by the continuation of payments to Discover, and lowering the APR solely on the basis of these payments is not a prudent risk management response. The implementation of a cure for risk-based APR increases must balance the desire to reward responsible credit usage with more favorable pricing with the obligation to maintain the safety and soundness of our bank.

C. Responses to Follow-up Questions from Senator McCaskill

1. Has your company ever participated in the practice of selling discharged debts in bankruptcy to third-party debt buyers?

Response: No.

2. Has your company ever contacted former account holders discharged in bankruptcy to try and collect a discharged debt or attempted to encourage the account holder to reaffirm the discharged debt?

Response: Contacting customers about reaffirming discharged debts is permissible under the Bankruptcy Code. (The 2005 amendments to the law added several new provisions to strengthen the consumer protections that apply

to debt reaffirmation agreements). However, Discover has not engaged in this practice for about a decade.

We do not contact former account holders in an attempt to collect debts that have been discharged in bankruptcy. Consistent with the "automatic stay" provisions of the Bankruptcy Code, collection efforts on debts of individuals who file for bankruptcy cease when we receive notice of the filing of the bankruptcy petition. At the same time, the account is reported to consumer reporting agencies as having a $0 balance. Prior to the hearing, we provided Senator McCaskill's staff with information about a reported instance in which a former customer who had obtained a discharge was contacted in error, based on the belief that the debtor was no longer in bankruptcy, and the stay had been lifted. We had been notified by the court that the customer's bankruptcy petition had been dismissed, but failed to note that the customer had filed for relief under another Chapter of the Bankruptcy Code. Communications were terminated again when Discover learned this.)

New Balance	Minimum Payment Due	Account Number ending in [redacted]
$882.39	$28.00	Enter Amount Enclosed Below
	Payment Due Date April 5, 2004	$

Please make check payable to Discover Platinum Card. Minimum payment due includes a past due amount of $10.00.

HARD, JANET M
WILLIAM R HARD
[redacted]
FREELAND MI 48623-0003

Know what's on your statement–before you even get it. Keep track online with daily updates and up to 12 months of history. Visit Discovercard.com/register

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Address, e-mail or telephone change? Print change in space above, or go to Discovercard.com. Print your e-mail address to receive important Account information and special offers.

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[redacted]

Discover Platinum Card Account Summary

Closing Date: March 6, 2004 page 1 of ??PN??

Account number ending in [redacted]	
Payment Due Date	April 5, 2004
Minimum Payment Due	$28.00
Credit Limit	$10,000.00
Credit Available	$9,117.00
Cash Credit Limit	$5,000.00
Cash Credit Available	$5,000.00

Previous Balance		$224.74
Payments And Credits	-	0.00
Purchases	+	649.88
Cash Advances	+	0.00
Balance Transfers	+	0.00
Finance Charges	+	7.77
New Balance	=	$882.39

You may be able to avoid Periodic Finance Charges, see the reverse side for details.

Cashback Bonus®

Cashback Bonus® Anniversary Date: April 6

Opening Cashback Bonus Balance	$	0.56
New Cashback Bonus Earned	+	0.00
	+	1.54
Cashback Bonus Balance	$	**2.10**
Available to Redeem	$	**0.00**

How Can We Help You?

Please have your Discover Card available.
Manage your account online at Discovercard.com
Customer Service: 1-800-DISCOVER (1-800-347-2683)

For Account Inquiries, write to us at:
Discover More Card, PO Box 30943
Salt Lake City, UT 84130
TDD (Telecommunications Device for the Deaf):
For assistance, see reverse side.

Transactions

$0 Fraud Liability Guarantee Use your Discover Card with confidence.

	Trans. Date	Post Date			
Merchandise/Retail	Feb 12	Feb 12	KMART 7068 MIDLAND MI	$	31.41
	Feb 27	Feb 27	WALMRT SUPERCNT 005097 SAGINAW MI		52.23
	Mar 3	Mar 3	KMART 7068 MIDLAND MI		30.24
Restaurants	Feb 14	Feb 14	PONDEROSA STEAKHOUSE MIDLAND MI		36.38
	Mar 1	Mar 1	PI S CHINESE RESTAURAN MIDLAND MI		31.51
Other/Miscellaneous	Mar 6	Mar 6	DISCOVER ACCOUNTGUARD 1-877-883-1959		7.43
	Mar 6	Mar 6	LATE FEE		25.00
Gas/Automotive	Feb 5	Feb 7	EXXONMOBIL T2R5519 FREELAND MI 260 965 758 6		28.70
	Feb 15	Feb 15	EXXONMOBIL T2R2922 FREELAND MI 260 965 758 6		28.36
	Feb 22	Feb 22	EXXONMOBIL T2R0574 FREELAND MI 260 965 758 6		27.11
	Feb 26	Feb 26	EXXONMOBIL T2R4063 FREELAND MI 260 965 758 6		24.24
Services	Feb 6	Feb 7	VER*VERIZONWIRELESS101 888-466-4646 OH 32462226		209.54
Supermarkets	Feb 23	Feb 23	PATS FOOD CENTER S4V FREELAND MI		117.73

Information For You

Please note, the Traditional Cashback Bonus award is now called the Purchase Cashback Bonus award.

It pays to DISCOVER

HARD, JANET M
Account number ending in [redacted]

Have a question? Talk to us.

There's no telling when you might have a question about your Discover® Card account. Which is why we're here 24 hours a day, 7 days a week. Perhaps best of all, you'll be connected to one of our friendly, knowledgeable Customer Service Representatives in less than a minute. Real answers from real people. It's just one of the ways we put you first.

Call us at **1-800-DISCOVER** (1-800-347-2683).

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Closing Date: March 6, 2004

******* ATTENTION ******* ATTENTION ******* ATTENTION ******* ATTENTION ******* ATTENTION ******* Your account is past due. Please pay the past due amount now, or contact us to make other arrangements.

70% of credit reports contain at least one mistake (Consumer Reports, January 2001). Enroll in optional ProfileProtect(R), and we will send your credit report, monitor your credit file for changes every business day, and send you Quarterly Credit Updates – tools to help protect yourself from identity theft. Call 1-877-737-1936 to enroll.

Finance Charge Summary

	Average Daily Balances	Daily Periodic Rates	Nominal ANNUAL PERCENTAGE RATES	ANNUAL PERCENTAGE RATES	Periodic FINANCE CHARGES	Transaction Fee FINANCE CHARGES
current billing period: 29 days						
Purchases	$1.90	0.04038%	14.74% V	14.74%	$0.02	none
Promotional Purchases	$639.75	0.04038%	14.74% V	14.74%	$7.48	none
Cash Advances	$0	0.05477%	19.99% F	19.99%	$0	$0
previous billing period: 31 days						
Purchases	$0	0.04038%	14.74% V	14.74%	$0	none
Promotional Purchases	$66.43	0.01342%	4.90% F	4.90%	$0.27	none

The rates that apply to your Account are either fixed (F) or they may vary (V) as noted above.

Questions? Manage your account at **Discovercard.com** or call **1-800-DISCOVER** (1-800-347-2683).

ORION - Cardmember Services — JANDER6, HE, PROD.CSV, 5:06 PM

24	Jan 15, 2004	KFIGHLE	RT	nb refinnc inquiry/acct saved
25	Jan 15, 2004	KFIGHLE	RT	lk/3152 aa rate application
26	Mar 10, 2004	THENDER	CS	p-addr: 9875 midland rd po box 3
27	Mar 10, 2004	THENDER	CS	p-addr: freeland mi 488239725
28	Mar 10, 2004	THENDER	CS	clear acct delq 33 & update history
29	Mar 10, 2004	THENDER	CS	adj:rec:didn't receive statement
30	Mar 10, 2004	THENDER	CS	off no offer - no preferred offers available
31	Mar 10, 2004	THENDER	CS	off no offer - no preferred offers available
32	Mar 10, 2004	THENDER	CS	prev 12 month acct activity history:b[illegible]
33	Mar 10, 2004	THENDER	CS	clear acct's historical delinquency
34	Mar 17, 2004	RMARTEL	CS	off profileprotect - cm1 only offer declined
35	Apr 21, 2004	LMCNEEL	RT	off no offer made to cm
36	Apr 27, 2004	SWORKM1	CS	off up to 10% grocery offer accepted/enrolled
37	Jun 7, 2004	INET50		smrtck pymnt of $2,000.00 on 060720041828 #51e8647e24a2
38	Jul 2, 2004	INET50		smrtck pymnt of $200.00 on 070220041447 #248aae22a7a2
39	Aug 3, 2004	INET50		smrtck pymnt of $100.00 on 080320041639 #389f514ec49a
40	Sep 3, 2004	INET50		smrtck pymnt of $100.00 on 090320040912 #3fb7c1e3079a
41	Sep 15, 2004	JMILLIS	TS	off pt w/cll(up to 150%) offer declined
42	Sep 18, 2004	KSALO	TS	off tn w/cll(up to 150%) offer declined
43	Sep 18, 2004	KSALO	TS	off no offer made to cm
44	Sep 18, 2004	KSALO	TS	off additional card offer declined
45	Oct 5, 2004	INET50		smrtck pymnt of $100.00 on 100520041421 #51e97059ca0a
46	Nov 5, 2004	INET50		smrtck pymnt of $100.00 on 110520041845 #000d6a9f0972
47	Dec 6, 2004	INET50		smrtck pymnt of $100.00 on 120520040730 #000d8c80cb72
48	Dec 11, 2004	WMP04800	CS	cm173 purge dt 12/11/04 04/09/05 07/09/05 08/08/05 09/10/05
49	Dec 28, 2004	SSCOW	TS	off pt w/cll(up to 150%) offer declined
50	Dec 28, 2004	SSCOW	TS	off additional card offer declined
51	Dec 28, 2004	SSCOW	TS	off get m. get smart. 5% cbb offer accepted/enrolled
52	Dec 31, 2004	INET50		smrtck pymnt of $150.00 on 123120041117 #389f7fc2d72
53	Feb 4, 2005	INET50		smrtck pymnt of $50.00 on 020420050858 #2d871ec7debe

New Balance	Minimum Payment Due	Account Number ending in [redacted]
$1,969.86	$40.00	Enter Amount Enclosed Below
	Payment Due Date May 5, 2004	$

Please make check payable to Discover Platinum Card or pay online @ Discovercard.com.

HARD, JANET M
WILLIAM R HARD
[redacted]
FREELAND MI 48623-0003

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[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Discover Platinum Card Account Summary

Closing Date: April 6, 2004 page 1 of ??PN??

Account number ending in [redacted]

Payment Due Date	May 5, 2004
Minimum Payment Due	$40.00
Credit Limit	$10,000.00
Credit Available	$8,030.00
Cash Credit Limit	$5,000.00
Cash Credit Available	$5,000.00

Previous Balance		$882.39
Payments And Credits	-	249.74
Purchases	+	1,317.01
Cash Advances	+	0.00
Balance Transfers	+	0.00
Finance Charges	+	20.20
New Balance	=	$1,969.86

You may be able to avoid Periodic Finance Charges, see the reverse side for details.

Cashback Bonus®

Cashback Bonus® Since Anniversary Date of April 6: $6.96

Opening Cashback Bonus Balance	$	2.10
New Cashback Bonus Earned	+	0.00
	+	4.86
Cashback Bonus Balance	$	6.96
Available to Redeem	$	0.00

Keep using your Discover(R) Card and watch your Cashback Bonus(R) award grow! Remember, once your Cashback Bonus award is at least $20, you can redeem your award by calling us or by logging into the Account Center at Discovercard.com.

How Can We Help You?

Please have your Discover Card available.
Manage your account online at Discovercard.com
Customer Service: 1-800-DISCOVER (1-800-347-2683)

For Account Inquiries, write to us at:
Discover More Card, PO Box 30943
Salt Lake City, UT 84130

TDD (Telecommunications Device for the Deaf):
For assistance, see reverse side.

Transactions

$0 Fraud Liability Guarantee Use your Discover Card with confidence.

	Trans. Date	Post Date		
Payments and Credits	Mar 10	Mar 10	LATE CHARGE REFUND	$ -25.00
	Mar 14	Mar 14	PAYMENT - THANK YOU	-224.74
Merchandise/Retail	Mar 7	Mar 7	WALMART STORE 002644 SAGINAW MI	84.89
	Mar 20	Mar 20	WALMART STORE 005029 OREGON OH	32.04
	Mar 23	Mar 23	JIM AND DONNAS FLOWER MT PLEASANT MI	33.80
	Mar 26	Mar 26	WALMART STORE 005029 OREGON OH	28.00
	Mar 31	Mar 31	WALMART STORE 005029 OREGON OH	17.57
Other/Miscellaneous	Apr 6	Apr 6	DISCOVER ACCOUNTGUARD 1-877-883-1959	16.60
Gas/Automotive	Mar 4	Mar 7	MUFFLER MAN BAY RD SAGINAW MI	35.00
	Mar 5	Mar 7	EXXONMOBIL T2R0495 FREELAND MI 260 965 758 6	43.00
	Mar 5	Mar 7	EXXONMOBIL T2R1317 FREELAND MI 260 965 758 6	58.00
	Mar 7	Mar 7	EXXONMOBIL T2R2461 FREELAND MI 260 965 758 6	28.92
	Mar 8	Mar 8	EXXONMOBIL T2R1550 FREELAND MI	20.00

As a Discover(R) Cardmember, you can get cash quickly and easily – just about anytime, anywhere. To find the nearest cash locations, select your P.I.N., or to order Discover Card Cash Access Checks, call 1-800-DISCOVER (1-800-347-2683). And don't forget to visit us at Discovercard.com where you can also search for cash locations nearest you

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HARD, JANET M
Account number ending in [redacted]

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There's no telling when you might have a question about your Discover® Card account. Which is why we're here 24 hours a day, 7 days a week. Perhaps best of all, you'll be connected to one of our friendly, knowledgeable Customer Service Representatives in less than a minute. Real answers from real people. It's just one of the ways we put you first.

Call us at **1-800-DISCOVER** (1-800-347-2683).

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Gas/Automotive			260 965 758 6	
	Mar 14	Mar 14	ADMIRAL PETROLEUM FREELAND MI	26.48
	Mar 19	Mar 19	EXXONMOBIL T2R1452 FREELAND MI 260 965 758 6	51.49
	Mar 22	Mar 22	EXXONMOBIL T2R2811 FREELAND MI 260 965 758 6	27.83
	Mar 29	Mar 29	EXXONMOBIL LH78344 PERRYSBURG OH 260 963 570 7	26.28
	Apr 1	Apr 1	EXXONMOBIL OE61963 FREELAND MI 260 965 758 6	28.41
Travel/Entertainment	Mar 8	Mar 8	RAMADA INN LIMA OH	323.75
	Mar 20	Mar 20	HOWARD JOHNSON INN 4198375245 OH	43.95
	Mar 20	Mar 20	HOWARD JOHNSON INN 4198375245 OH	179.00
	Mar 28	Mar 28	HOWARD JOHNSON INN 4198375245 OH	179.00
Education	Mar 17	Mar 17	NURSING EDUC OF AMER. RIDGEDALE MO	33.00

Information For You

Please note, the Traditional Cashback Bonus award is now called the Purchase Cashback Bonus award.

Balance Transfer offer for current billing period: Daily Periodic Rate: 0.02712%; corresponding ANNUAL PERCENTAGE RATE: 9.90%. Rate is subject to the terms of the offer including expiration.

FREE Additional Cards allow you to share your credit line without sharing your card! Request FREE Additional Cards for your spouse, college student, or anyone close to you. You'll get a lot more out of your credit line! Just call 1-800-347-5537 or visit Discovercard.com today.

Get up to 10% back on groceries with your Discover(R) Card. Plus, receive a Cashback Bonus(R) award on your other purchases. Sign up today – call 1-800-475-9161 or visit Discovercard.com. This offer only lasts through June.

GIFT SHOPPING MADE EASY. Discover(R) Gift Cards simplify gift giving for Spring holidays and events. Order now at Discovergiftcard.com. See terms and conditions for gift card purchases. Fees apply. Offer not valid to residents of CT, DC, MA, ME and NH.

Finance Charge Summary

	Average Daily Balances	Daily Periodic Rates	Nominal ANNUAL PERCENTAGE RATES	ANNUAL PERCENTAGE RATES	Periodic FINANCE CHARGES	Transaction Fee FINANCE CHARGES
current billing period: 31 days						
Purchases	$11.84	0.04038%	14.74% V	14.74%	$0.14	none
Promotional Purchases	$1604.25	0.04038%	14.74% V	14.74%	$20.06	none
Cash Advances	$0	0.05477%	19.99% F	19.99%	$0	$0

The rates that apply to your Account are either fixed (F) or they may vary (V) as noted above.

Questions? Manage your account at **Discovercard.com** or call **1-800-DISCOVER** (1-800-347-2683).

New Balance	Minimum Payment Due	Account Number ending in [redacted]
$3,053.70	$116.00	Enter Amount Enclosed Below
	Payment Due Date July 5, 2004	$

Please make check payable to Discover Platinum Card. Minimum payment due includes a past due amount of $54.00.

HARD, JANET M
WILLIAM R HARD
[redacted]
FREELAND MI 48623-0003

Know what's on your statement–before you even get it. Keep track online with daily updates and up to 12 months of history. Visit Discovercard.com/register

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[redacted]

Discover Platinum Card Account Summary

Closing Date: June 6, 2004 — page 1 of ??PN??

Account number ending in	[redacted]	Previous Balance		$2,678.75
Payment Due Date	July 5, 2004	Payments And Credits	-	0.00
Minimum Payment Due	$116.00	Purchases	+	362.46
Credit Limit	$10,000.00	Cash Advances	+	0.00
Credit Available	$6,946.00	Balance Transfers	+	0.00
Cash Credit Limit	$5,000.00	Finance Charges	+	12.49
Cash Credit Available	$5,000.00	New Balance	=	$3,053.70

You may be able to avoid Periodic Finance Charges, see the reverse side for details.

Cashback Bonus®

Opening Cashback Bonus Balance	$	9.05
New Cashback Bonus Earned	+	0.00
	+	0.82
Cashback Bonus Balance	$	**9.87**
Available to Redeem	$	**0.00**

Cashback Bonus® Anniversary Date: April 6

How Can We Help You?

Please have your Discover Card available.
Manage your account online at Discovercard.com
Customer Service: 1-800-DISCOVER (1-800-347-2683)

For Account Inquiries, write to us at:
Discover More Card, PO Box 30943
Salt Lake City, UT 84130

TDD (Telecommunications Device for the Deaf):
For assistance, see reverse side.

Transactions

$0 Fraud Liability Guarantee Use your Discover Card with confidence.

	Trans. Date	Post Date		
Merchandise/Retail	May 8	May 8	WALMART STORE 002644 SAGINAW MI	$ 39.12
	May 23	May 23	WALGREEN 000655999142 MIDLAND MI	14.73
	May 24	May 24	WALMART STORE 002619 MIDLAND MI	17.95
Other/Miscellaneous	Jun 6	Jun 6	LATE FEE	35.00
Gas/Automotive	May 6	May 7	EXXONMOBIL T2R0212 FREELAND MI 260 965 758 6	20.00
	May 12	May 12	EXXONMOBIL T2R4741 FREELAND MI 260 965 758 6	5.00
	May 13	May 13	SUPER FLITE FREELAND MI 9700015025	34.77
	May 22	May 22	ADMIRAL PETROLEUM FREELAND MI	10.03
	May 25	May 25	EXXONMOBIL T2R8092 FREELAND MI 260 965 758 6	35.12
	Jun 1	Jun 1	EXXONMOBIL T2R1924 FREELAND MI 260 965 758 6	25.02
Home Improvement	May 27	May 27	THE HOME DEPOT 2714 SAGANAW MI	95.53
	May 29	May 29	THE HOME DEPOT 2714 SAGANAW MI	30.19

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HARD, JANET M
Account number ending in [redacted]

Have a question? Talk to us.

There's no telling when you might have a question about your Discover® Card account. Which is why we're here 24 hours a day, 7 days a week. Perhaps best of all, you'll be connected to one of our friendly, knowledgeable Customer Service Representatives in less than a minute. Real answers from real people. It's just one of the ways we put you first.

Call us at **1-800-DISCOVER** (1-800-347-2683).

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Closing Date: June 6, 2004

Information For You

Since your Account is overlimit and/or your payment was late, we have terminated any introductory or promotional rate on purchases and any special balance transfer rate, and applied the standard APR for purchases to your outstanding balance of purchases and balance transfers. If you continue to make late payments or exceed your Account credit limit, the APRs on your Account may be further increased. See the Default Rate Plan section of the Cardmember Agreement for details.

Please note, the Traditional Cashback Bonus award is now called the Purchase Cashback Bonus award.

******* ATTENTION ******* ATTENTION ******* ATTENTION ******* ATTENTION ******* ATTENTION ******* Your account is past due. Please pay the past due amount now, or contact us to make other arrangements.

Congratulations to the 2004 National Discover(R) Card Tribute Award(R) Scholarship winners: April Alvarez, Vladimir Dubovskiy, Ji Guo, Jamie Hargrove, Kristian Henderson, Yuji Huang, Jessica Mann, Brian Monahan and Holly Walker. Each won $27,500 for post high-school education or training. Visit Discovercard.com/tribute.htm to learn more.

Save 10% with Discover(R) Card at Comfort Inn(R), Comfort Suites(R), Quality(R), Sleep Inn(R), Clarion(R), MainStay Suites(R), Econo Lodge(R) and Rodeway Inn(R) by 12/31/04. Call 800-4CHOICE and use 00801242 or click the Special Rate link at choicehotels.com. Restrictions apply. Cannot combine with other offers. Advance reservations required.

Identity theft complaints to the FTC increased 33%; from 161,836 complaints in 2002 to 214,905 in 2003 (Federal Trade Commission, Jan. 2004). Enroll in optional ProfilaProtect(R) & we will send you a copy of your credit report & monitor your credit file every business day – tools to help protect you from ID theft. Call 1-866-708-0672 to enroll.

Finance Charge Summary

	Average Daily Balances	Daily Periodic Rates	Nominal ANNUAL PERCENTAGE RATES	ANNUAL PERCENTAGE RATES	Periodic FINANCE CHARGES	Transaction Fee FINANCE CHARGES
current billing period: 31 days						
Purchases	$73.98	0.04038%	14.74% V	14.74%	$0.92	none
Promotional Purchases	$2783.27	0.01342%	4.90% F	4.90%	$11.57	none
Cash Advances	$0	0.05477%	19.99% F	19.99%	$0	$0

The rates that apply to your Account are either fixed (F) or they may vary (V) as noted above.

Questions? Manage your account at **Discovercard.com**
or call **1-800-DISCOVER** (1-800-347-2683).

New Balance	Minimum Payment Due	Account Number ending in [redacted]
$4,979.37	$182.00	Enter Amount Enclosed Below
	Payment Due Date December 5, 2004	$

Please make check payable to Discover Platinum Card. Minimum payment due includes a past due amount of $82.00.

HARD, JANET M
WILLIAM R HARD
[redacted]
FREELAND MI 48623-0003

Know what's on your statement–before you even get it. Keep track online with daily updates and up to 12 months of history. Visit Discovercard.com/register

PO BOX 15251
WILMINGTON DE 19886-5251

Address, e-mail or telephone change? Print change in space above, or go to Discovercard.com. Print your e-mail address to receive important Account information and special offers.

[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Discover Platinum Card Account Summary

Closing Date: November 6, 2004 page 1 of ??PN??

Account number ending in [redacted]		Previous Balance		$4,054.35
Payment Due Date	December 5, 2004	Payments And Credits	-	0.00
Minimum Payment Due	$182.00	Purchases	+	864.22
Credit Limit	$10,000.00	Cash Advances	+	0.00
Credit Available	$5,020.00	Balance Transfers	+	0.00
Cash Credit Limit	$5,000.00	**Finance Charges**	+	60.80
Cash Credit Available	$5,000.00	New Balance	=	$4,979.37

You may be able to avoid Periodic Finance Charges, see the reverse side for details.

Cashback Bonus®

Opening Cashback Bonus Balance	$	30.00
New Cashback Bonus Earned	+	0.00
	+	8.09
Cashback Bonus Balance	$	**38.09**
Available to Redeem	$	**0.00**

Cashback Bonus® Since Anniversary Date of April 6: $31.13

How Can We Help You?

Please have your Discover Card available.
Manage your account online at Discovercard.com
Customer Service: 1-800-DISCOVER (1-800-347-2683)

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Salt Lake City, UT 84130

TDD (Telecommunications Device for the Deaf):
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Transactions

$0 Fraud Liability Guarantee Use your Discover Card with confidence.

	Trans. Date	Post Date		
Merchandise/Retail	Oct 10	Oct 10	LOW BOB #1004 LA PORTE IN	$ 8.71
	Oct 10	Oct 10	DOLLAR-GENERAL #2173 LA PORTE IN	5.50
	Oct 12	Oct 12	WALMART STORE 002276 LA PORTE IN	9.27
	Oct 14	Oct 14	STEVE & BARRY UNIV #45 MIDLAND MI	44.46
	Oct 21	Oct 21	TRACTOR-SUPPLY-CO #064 SAGINAW NORTHMI	19.72
	Oct 28	Oct 28	HALLOWEEN USA #122 SAGINAW MI	36.01
	Nov 1	Nov 1	WALMRT SUPERCNT 005097 SAGINAW MI	18.02
Restaurants	Oct 14	Oct 14	DAMON'S MIDLAND MI	41.98
	Oct 23	Oct 23	PONDEROSA STEAKHOUSE MIDLAND MI	24.10
Other/Miscellaneous	Nov 6	Nov 6	LATE FEE	35.00
Gas/Automotive	Oct 7	Oct 7	EXXONMOBIL OE69741 FREELAND MI 260 965 758 6	35.56
	Oct 8	Oct 8	EXXONMOBIL T2R9272 FREELAND MI 260 965 758 6	29.00
	Oct 9	Oct 9	REDMOND AUTOMOTIVE SAGINAW MI	79.44
	Oct 10	Oct 10	EXXONMOBIL T2R9323 FREELAND MI 260 965 758 6	51.00
	Oct 14	Oct 14	EXXONMOBIL MY53355 FREMONT IN 260 963 197 9	50.00
	Oct 15	Oct 15	061887 PAXSON OIL CO E FREELAND MI	35.52
	Oct 19	Oct 19	EXXONMOBIL OE61684 FREELAND MI 260 965 758 6	41.00
	Oct 21	Oct 21	CIRCLE AUTO PARTS FREELAND MI	15.45

It pays to DISCOVER

HARD, JANET M
Account number ending in [redacted]

Have a question? Talk to us.

There's no telling when you might have a question about your Discover® Card account. Which is why we're here 24 hours a day, 7 days a week. Perhaps best of all, you'll be connected to one of our friendly, knowledgeable Customer Service Representatives in less than a minute. Real answers from real people. It's just one of the ways we put you first.

Call us at **1-800-DISCOVER** (1-800-347-2683).

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Gas/Automotive	Oct 23	Oct 23	7 ELEVEN #59 SAGINAW MI 9800009009	33.02
	Oct 25	Oct 25	EXXONMOBIL T2R9808 FREELAND MI 260 965 758 6	34.00
	Oct 30	Oct 30	EXXONMOBIL T2R3444 FREELAND MI 260 965 758 6	15.01
	Oct 31	Oct 31	EXXONMOBIL T2R0880 FREELAND MI 260 965 758 6	42.16
	Oct 31	Oct 31	ADMIRAL PETROLEUM FREELAND MI	34.43
	Nov 2	Nov 2	EXXONMOBIL OE61854 FREELAND MI 260 965 758 6	20.00
Services	Oct 28	Oct 28	EASTMAN ANIMAL CLINIC MIDLAND MI	42.00
Supermarkets	Oct 6	Oct 7	PATS FOOD CENTER S4V FREELAND MI	14.52
	Oct 8	Oct 8	MEIJER #108 MIDLAND MI	49.34

Information For You

While we are permitted under the Cardmember Agreement to increase the APRs on your Account because your payment was late, we have chosen not to do so at this time. We have terminated, however, any introductory or promotional rate on purchases and any special balance transfer rate, and applied the standard APR for purchases to your outstanding balance of purchases and balance transfers. However, we reserve the right to increase the APRs on your Account if you fail to pay the minimum payment due by the payment due date. See the Default Rate Plan section of the Cardmember Agreement for details.

Your account is past due. Please pay your minimum monthly payment plus the past due amount.

Balance Transfer offer for current billing period: Daily Periodic Rate: 0.04244%; corresponding ANNUAL PERCENTAGE RATE: 15.49%. Rate is subject to the terms of the offer including expiration.

Through the generosity of our Cardmembers, Discover(R) Card has donated more than $14 million to the Make-A-Wish Foundation(R). You can make a child's dream come true by electing to donate your Cashback Bonus(R) award to the Make-A-Wish Foundation. To learn how, please visit Discovercard.com or visit www.wish.org.

Finance Charge Summary

	Average Daily Balances	Daily Periodic Rates	Nominal ANNUAL PERCENTAGE RATES	ANNUAL PERCENTAGE RATES	Periodic FINANCE CHARGES	Transaction Fee FINANCE CHARGES
current billing period: 31 days						
Purchases	$4621.11	0.04244%	15.49% V	15.49%	$60.80	none
Cash Advances	$0	0.05477%	19.99% F	19.99%	$0	$0

The rates that apply to your Account are either fixed (F) or they may vary (V) as noted above.

Questions? Manage your account at **Discovercard.com**
or call **1-800-DISCOVER** (1-800-347-2683).

RESPONSES TO SUPPLEMENTAL QUESTIONS FOR THE RECORD
FROM
SENATOR CARL LEVIN
to
BRUCE L. HAMMONDS
President
Bank of America Card Services
Bank of America Corporation

HEARING ON
CREDIT CARD PRACTICES:
UNFAIR INTEREST RATE INCREASES

1. **During the hearing, Bonnie Rushing testified that in 2007, her interest rate increased from 8% to 23% while Millard Glasshof testified that the interest rate on his closed account was increased from 15% to 27%.**

   a. **What is your maximum penalty interest rate?**

   If a customer has *two* defaults (e.g., is late or overlimit) on his or her Bank of America card in a 12 month period, a higher APR may be assigned. For the small percentage of cardholders who experience a second default within the twelve month time period and are repriced, the current maximum APR is the prime rate plus 23.99%. Most of these cardholders will have the ability to "cure" the default rate by avoiding defaults in the future.

   b. **What is the maximum interest rate your company will impose on a cardholder who is in compliance with the terms of their credit card agreement?**

   We periodically review accounts of existing customers to make sure pricing and credit limits remain appropriate based on the borrowers' current circumstances. Our experience has shown that customers who exhibit certain behaviors are more likely to default on their credit card loans. Such behaviors include their performance with us – making only minimum payments for a long time or taking large cash advances —and off-us behavior – like poor payment history, taking out numerous loans, using substantially all of the credit available to them, or defaulting on loans with other lenders.

   If we detect a change in these types of behaviors, a loan may be re-priced, but only after appropriate notice and opportunity to opt-out has been provided to the customer. In 2007, only a small minority of cardholders were subject to such risk-based repricing ("periodic risk-based repricing" or "repricing by amendment"). The maximum APR was 27.99%. Of course, any time the repricing is executed by an amendment, the cardholder can reject the repricing and pay off the existing balance at the previous rate.

Permanent Subcommittee on Investigations
EXHIBIT #22

c. **Do you have any policies limiting the amount of an interest rate increase that can be imposed on a cardholder, such as policy against doubling or tripling the interest rate of an existing cardholder?**

The applicable cap for periodic risk-based repricing varies, depending on the severity of the risk the cardholder presents. However, in no case will any cardholder receive an interest rate increase that exceeds 15 percentage points. As previously stated, a customer always has the right to reject a repricing by amendment and pay off the existing balance at the previous rate.

d. **Does your company allow the interest rate to be increased on a credit card account that is closed to new purchases but has a balance being paid off by the cardholder, or do you have a policy against increasing the interest rate on a closed account?**

Accountholders owing balances greater than $500 may be included in all risk-based repricings, regardless of whether the accounts are open to new charges. Once customers have rejected repricing amendments, however, they are not included in future risk-based repricings by amendment. We do not raise the rates on accounts we consider fully closed (no charging privileges and no balance).

2. **Many credit cards today carry variable interest rates linked to the prime rate.**

a. **What percentage of your credit cards carry variable interest rates and what percentage of those variable rate cards are linked to the prime rate?**

Approximately 54.7% of accounts have variable interest rates. Of these accounts, over 99% are linked to the Wall Street Journal's published prime rate.

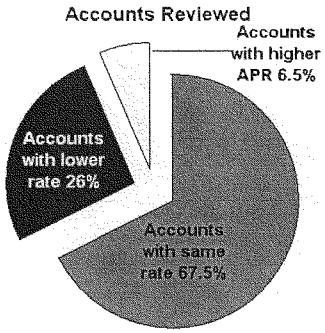
b. **How do you determine the specific prime rate in effect each month for the purpose of setting the variable interest rates on your credit cards? Please indicate, for example, whether you use the prime rate on a specific date, the highest prime rate during a specified period, or some other method.**

As of April 2008, all prime linked accounts will use the highest prime rate in the previous 3 months as published on the last business day of the month in the Wall Street Journal.

3. **During the hearing, you indicated that 93.5% of Bank of America cardholders now have the same or lower interest than they did one year ago.**

a. **Of that 93.5% figure, what percentage had the same interest rate as a year ago and what percentage had a lower rate than a year ago?**

The 93.5% figure, which includes all accounts in the credit card portfolio with a balance and/or potential active charging privileges that were open as of January 1, 2007, breaks down as follows:

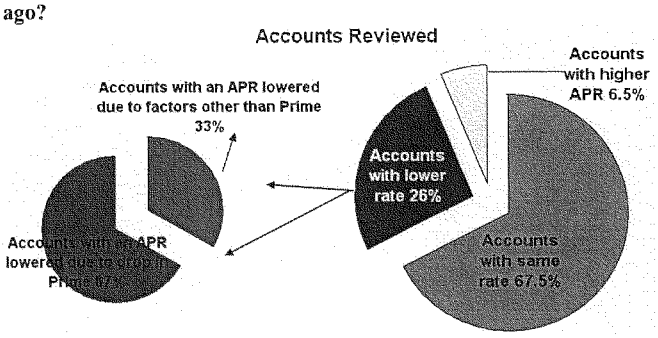


93.5% of the accounts had the same or lower APR from previous year.
67.5% of accounts had the same APR as previous year
26% of accounts had a lower APR than previous year.
6.5% of accounts had a higher APR higher than previous year

b. **Does the 93.5% figure include Bank of America credit cards with variable interest rates linked to the prime rate?**

Yes.

If so, what percentage of the 93.5% figure is attributable to credit cards whose interest rates are lower now because of prime rate itself is lower now than it was one year ago?



The 93.5% of accounts with the same or lower APR includes accounts with both fixed and variable interest rates. Of the 26% of accounts with a lower APR, 67% were lower due to reductions in the prime rate.

c. **Does the 93.5% figure include Bank of America cardholders who were subjected to a penalty interest rate increase in the prior year, and have since been able to negotiate a lower rate?**

Yes.

If so, what percentage of the 93.5% figure is attributable to cardholders who paid a penalty interest rate a year ago?

We cannot determine an answer to this question because we cannot identify to a certainty whether a given account's APR at the beginning of 2007 constituted a default interest rate.

d. **Does the 93.5% figure include Bank of America cardholders who usually pay their bills in full and rarely carry a balance from month to month?**

Yes. The 93.5% figure includes "Transactors," which we define as cardholders who did not pay any finance charges in the preceding year or who were otherwise characterized by their behavior as customers who usually pay their bills in full. The figure also includes "Revolvers," which are defined as cardholders who did pay periodic rate finance charges in the previous year.

If so, what percentage of the 93.5% figure is attributable to this category of cardbolders who were assigned a higher interest rate a year ago but were able to negotiate a lower rate?

Of the 93.5% of accounts with the same or lower APR, 62% are Transactors. We cannot identify which Transactors may have been assigned a higher rate but were able to negotiate a lower rate in the course of the previous year.

e. **What percentage of the 93.5% figure is attributable to cardholders who carry a balance from month to month, and ended the year with a lower interest rate than they had one year ago?**

Approximately 38% of the accounts with the same or lower APR are Revolvers. Of the accounts with a lower rate than in the previous year, 26% are Revolvers.

4. **At the hearing, you indicated that one factor that could cause a cardholder's interest rate to be increased is if that cardholder were to receive a lower FICO score as reported by a credit bureau.**

   a. **Does a FICO score have to fall by a designated amount, such as by 20 or 30 points, before your automated system will review whether the cardholder's account should receive an interest rate increase, or could a FICO score that falls by as little as 1 point trigger an interest rate review?**

      We do not base our repricing decisions exclusively on external factors, such as FICO score. Moreover, our periodic risk reviews are *not* triggered by the customer's FICO score declining by a certain amount.

   b. **If a FICO score has to fall by a designated amount before an interest rate review is triggered, what is the designated amount?**

      Not applicable.

   c. **Has that designated amount been the same since January 1, 2005, and if not, how has it changed since then?**

      Not applicable.

   d. **Does a FICO score have to fall below a designated level, such as 650 or 700, before your automated system will review whether the cardholder's account should receive an interest rate increase, or could a FICO score at any level trigger an interest rate review?**

      We do not base our repricing decisions exclusively on external factors, such as FICO score. In general, accounts with a FICO score greater than 700 are not repriced by risk-based repricing.

   e. **If a FICO score has to fall below a designated level before an interest rate review is triggered, what is that level? Has that level been the same since January 1, 2005, and if not, how has it changed since then?**

      See response to 5(d) above. The level was set and used by MBNA prior to 2005 and was adopted by the combined company following the Bank of America/MBNA merger.

   f. **Given your criteria for when a lower FICO score will trigger an automated interest rate review of a cardholder's account, is it sufficient for just one credit score reported by a credit bureau to meet those criteria or would the credit scores reported by all three credit bureaus have to meet the criteria before an automated interest rate review is triggered?**

      Not applicable, as a lower FICO score does not trigger an automated interest rate review. Our risk-based criteria utilizes one credit bureau's FICO score.

g. **If a credit bureau were to report a FICO score increase for a cardholder, is your automated system currently set up so that this higher FICO score would trigger an automated interest rate review that could result in a reduced interest rate for that cardholder?**

No, our periodic risk reviews do not currently involve downward price adjustments. Rate decreases are handled upon customer request, through direct communication with the customer, and include the development of a full credit profile of the customer. Bank of America utilizes a dedicated department of highly trained associates to discuss APR related questions with our cardholders.

h. **If so, please describe the criteria that would trigger an automated interest rate review under these circumstances.**

Not applicable.

i. **If not, please describe any concrete plans to develop this type of automated interest rate review.**

There are currently no plans for such an automated FICO analysis.

5. **The cardholders at the hearing had their interest rates increased despite payment histories showing that they consistently paid the credit card bills you sent them on time, paid at least the minimum amount due, and did not exceed the credit limits on their accounts. When assessing a cardholder's credit risk and whether the cardholder should be assessed a higher interest rate, why does your automated system currently place more weight on a cardholder's FICO score than on the cardholder's actual payment history with your company?**

At Bank of America, we base our repricing decisions on factors that are proven, accurate predictors of risk. These factors include external factors such as FICO, though we do not base our repricing decisions exclusively on the FICO score. Risk is determined by concurrently evaluating FICO and our experience with the customer, using a variety of factors, including payment history, balance trend, and account usage. In this context, it is not accurate to say that the system places more weight on the FICO score.

6. **When a cardholder is notified of an interest rate increase, the notice often provides the cardholder with an opportunity to "opt out" of the increase by closing the credit card account and paying off the existing credit card debt at the existing interest rate.**

a. **What percentage of your cardholders who are offered the opportunity to opt out of an interest rate increase actually invoke the opt out procedure?**

A repricing amendment always provides the opportunity to opt out of the change. Approximately 10% of customers selected for a repricing by an amendment exercise the right to reject the change in terms.

b. **At the hearing, Bank of America indicated that almost 90% of its cardholders did not invoke the available opt out procedure to avoid an interest rate increase. Possible explanations for this high percentage include that the affected cardholders did not receive the notice of the interest rate increase; that they received the notice but did not see or understand how to invoke the opt our procedure; that they did not have sufficient time to invoke the opt out procedure; or that they saw and understood the opt out procedure but were willing to accept the higher interest rate. Have you conducted or are you aware of any research into the reasons why cardholders do not invoke an opt out procedure to avoid an interest rate increase? If so, please describe the nature of that research and its results.**

No. We have not conducted and are not aware of any research that specifically examines why customers do or do not invoke our opt out procedure, which is clearly and conspicuously disclosed.

7. **The opt out procedure offers an important safeguard to protect consumers from substantial, unplanned interest rate increases. Many cardholders have told Subcommittee, however, that they were unable to take advantage of the opt out procedure, because they did not receive notice of it, they missed the deadline, or the opt out procedure itself was confusing or cumbersome.**

a. **Do you have any recommendations or plans underway for making the opt out procedure easier to use for cardholders?**

Yes. We have reviewed the design and processes surrounding change in terms amendments and the opportunity our customers have to opt out and pay off any existing balances under the current terms. In particular, we are concerned that our customer who testified stated that she did not see the change in terms notice that was originally sent to her, and so missed the opportunity to opt-out. Reacting to that concern, we are making changes to our practices to address this situation, thus expanding the opportunities for our customers to control their accounts and maintain their existing interest rates.

b. **Would it be feasible to include the notice of an interest rate increase on a cardholder's billing statement in large, bold type; to have that notice show both the existing and proposed interest rates next to each other and the amount of the finance charge due under both rates; to include an explanation of how to opt our of the increase; and to require the opt out decision to be made by the billing statement's due date?**

This sort of change to the periodic statement would be very difficult and expensive to implement, though certainly not impossible.

c. **The Federal Reserve has recommended that credit card issuers provide 45 days notice before increasing an interest rate. Would it be feasible for that 45 day notice period to end on the due date of the billing statement in which the notice described above appears?**

In our comment letter to the Federal Reserve Board, we opposed the suggested 45 day notice period, because it does not align with billing cycles, and aligning the notice period for each customer with the end of his or her billing cycle would be very difficult and expensive.

d. **To make it easier for a cardholder to invoke the opt out procedure, would it be feasible to allow the cardholder to inform your company online, by calling a customer service representative by telephone, or by including a written document with their monthly payment?**

Alternative methods of opt-out are feasible. As noted above, we are reviewing the design and processes surrounding our customer opt-out process, with a view toward making improvements. Encouraging customers to include written documents with the monthly payment is not a good approach, as it may slow the processing of payments.

e. **Would it be feasible to allow a cardholder to opt out of an interest rate increase at any time after receiving notice of that increase, so long as the cardholder did not use the credit card to make a new purchase?**

It is not feasible to allow a cardholder to opt out of an interest rate increase at any time after receiving the notice. Future disclosures to that customer would be laden with conditions, and tracking this conditional nature of the account over time would not be feasible.

8. **Currently, if a cardholder violates the terms of a credit card agreement and is assessed a penalty interest rate, most credit card issuers offer the cardholder an opportunity to "cure" their misconduct and recover their prior interest rate by paying their credit card bills on time for a specified number of months. No parallel procedure now exists to help cardholders whose interest rate increased for reasons unrelated to a penalty. Are you currently considering instituting a cure procedure for cardholders whose interest rates are increased even though they are in compliance with their credit cards agreements and, if so, please describe the nature of that procedure and when you plan to test and implement it?**

We plan to implement a cure in 2008 for default re-pricing, but have no current plans to implement such a procedure for risk-based repricing by amendment. In a default pricing scenario, the customer has breached the agreement, and may have the opportunity to cure that breach by conforming to the agreement for a set period of time. Risk, as determined by a combination of internal and external measurements, is not something that can be expressly cured, although customers have the right to opt-out of risk-based increases. Moreover, if customers improve their risk profiles, they may request and be considered for rate reductions. We are one of the few banks that have specially dedicated lenders, with full lending authority, who will develop and review the risk profile of the customer, and lower the rate as appropriate.

Supplemental Questions:

1. **Has your company ever participated in the practice of selling discharged debts to bankruptcy to third-party debt buyers?**

   Bank of America does not participate in the practice of selling discharged debts. This would violate the U.S. bankruptcy laws, and would be wrong for the consumer. A debt that has been fully "discharged" in bankruptcy is by definition uncollectible.

2. **Has your company ever contacted former account holders discharged in bankruptcy to try and collect a discharged debt or attempted to encourage the account holder to reaffirm the discharged debt?**

   Bank of America has never maintained a practice of attempting to collect, or encouraging account holders to reaffirm, discharged debts. This would violate the U.S. bankruptcy laws, and would be wrong for the consumer. A debt that has been fully "discharged" in bankruptcy is by definition uncollectible.

# # #