Institut
Für
Finanzdienstleistungen e.V.

05. Juni 2000/UR

Infobrief 22/00

Kreditkartenverschuldung USA; Consumer Federation of America

Nachfolgend möchten wir Ihnen einen Report der Verbraucherverbände der USA zum Kreditkartenmarkt und zur aktuellen Verschuldung zuleiten, der deutlich macht, woher wir in den nächsten Jahren die Gefährdung des Systems sozialer Gerechtigkeit und gleicher Konsumchancen zu befürchten haben.
Regelmäßig sind bisher die Entwicklungen in den USA ca. 5 Jahre später bei uns eingetroffen.

Wer zur Zeit den europäischen Kreditkartenmarkt, die Tendenz zur Automatisierung von Kredit und den Sieg der Kreditlinie über die geordneten Ratenkredite im Kreditgeschäft für die Unterschichrten verfolgt, der wird sich unschwer ausmalen können, dass der Kreditkartenkredit bzw. seine europäische Abwandlung, die ec-Kartengebunden Überziehungslimits die Verschuldung der untersten Schichten dominieren werden.

In diesem System werden dann die Risiken und Abschreibungen erheblich steigen und ein gespaltenes Kreditsystem hervorbringen, in dem Armut zu erheblich höheren Kostenbelastungen führen wird. Wenn dieses System, wie in den USA, erst einmal ein Ausmaß erhalten hat, dass für die Volkswirtschaft entscheidend ist, und wenn dieses System dann das einzige System ist, dass noch für eine Kreditversorgung des unteren Drittels der Bevölkerung zuständig ist, dann wird auch die Politik und die Rechtsprechung nicht umhin können, die Bedingungen zu schaffen, unter den spezielle Armutskredite noch lukrativ sind. Dies sind aber, wie der nachfolgende Rapport deutlich macht, einschneidende Verschlechterungen der Mindestqualität von Finanzdienstleistungen, wie wir es im Augenblick in den USA erleben.

Erst dann wird der Sozialstaat grundlegend in Frage gestellt, wenn der Wirtschaft das Recht der unbeschränkten sozialen Diskriminierung eingeräumt wird. Sozial gestaffelte Kreditzinssätze wie in den USA, teure Kombinationsprodukte, überhöhte Restschuldversicherungen und ständiges Umschulden kennzeichnen bereits heute das Geschäftsgebaren des größten Konsumentenkreditgebers der USA und der Welt, nämlich Citibank. Von den Wucherkrediten Ende der 70ziger Jahre der KKB über die Kettenkredite, die Umschuldungspraxis bis hin zu den nach Einkommen gestaffelten Zinssätzen der letzten Zeit und den vereitelten Coup, alle Bahncardbesitzer zu Kreditkartenbesitzern bei Citibank zu machen, hat diese Bank

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deutlich gemacht, wie sie amerikanische Verhältnisse einer gespaltenen 2/3 Gesellschaft bei uns einzuführen versucht. Die Verbraucherverbände sollten dies als Projektauftrag begreifen und am Beispiel dieser Bank auf dem Hintergrund der amerikanischen Berichte ein Stück Zukunftsbewältigung in Angriff nehmen. Es wird hierzu mit Sicherheit Stiftungen geben, die eine solche gemeinsame Anstrengung zum Schutz des „privaten“ Sozialstaates finanzieren werden.

Hier ein paar Zahlen aus dem Report, den wir ihnen in Englisch zumuten müssen:

	1994	1995	1996	1997	1998
Verluste bei Kreditkartenkrediten	3%	3,4%	4,4%	5,4%	5,6%

CFA Consumer Federation of America

RECENT TRENDS IN BANK CREDIT CARD MARKETING AND INDEBTEDNESS

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July 1998

Introduction

Last year in February and December, the Consumer Federation of America (CFA) issued reports on credit card debt and its financial impact on consumers. The reports revealed that 55 to 60 million households (55-60% of all households) carry credit card balances and that these balances average more than $7,000, costing these households more than $1,000 per year in interest and fees.
The reports also concluded that this mounting credit card debt was the most important reason for the rise in personal bankruptcies (1.3 million in 1997). In recent years, the industry significantly increased its card marketing to low and moderate income households. Not surprisingly, then, typical Chapter 7 bankrupts had relatively low incomes and high credit card debts -- in 1996, after-tax income of $19,800 and credit card debts of $17,544 according to research by the industryfunded Credit Research Center.

Experiencing rising losses from these insolvencies, the credit card industry organized a campaign to persuade Congress to restrict access to Chapter 7 bankruptcy. The campaign succeeded in persuading the House of Representatives to pass legislation quite similar to the proposal developed by the industry. This month, the Senate will consider only slightly less restrictive legislation.

This report examines the recent behavior of those credit card banks that have extended the large majority of all revolving credit. Most importantly, it demonstrates that recently these banks have expanded their marketing and extension of credit at the same time they have increased their political spending on a bankruptcy "reform" campaign intended to reduce their mounting debt losses. This report also suggests a far more effective and fairer strategy to reduce consumer financial insolvency and personal bankruptcies.

Banks Expand Card Marketing and Related Credit Extension

Banks now extend the large majority of all credit card debt. As the table below shows, the ratio of bank credit card debt to all revolving credit was 79.1% in the first quarter of 1998 and is even higher for credit card debt since an estimated 5% of revolving credit is not card debt, according to the Fed. This percentage has grown significantly in recent years.

TABLE 1: RELATION OF BANK CARD DEBT TO ALL REVOLVING CREDIT

	Bank Card Debt		All
	Revolving Credit	BCC/ARC	
1998 (Jan-Mar)	$425 billion	$537 billion	79.1%
1997	386	531	72.7
1.996	344	499	68.9

1995	281	443	63.4
1994	221	365	60.5

Sources: Bank card debt from Veribanc, Inc.; revolving credit from Federal Reserve Board.

Despite rising chargeoffs (bad debt losses), banks have recently expanded their card marketing and credit extension. This marketing and credit extension has risen much more rapidly than bank card debt, as the table below shows.

TABLE 2: BANK CARD MAILINGS, CREDIT LINES, AND DEBT (billions)

	Mailings	Unused Credit Lines	Debt	All Credit Extended (UCL+D)
1998*	3.2 b (proj.)	$1,778 b	$425 b	$2,203 b
1997	3.0	1,499	386	1,885
1996	2.4	1,183	344	1,527
1995	2.7	954	281	1,235
2994	2.4	725	221	946
1993	1.5	582	195	777
1992	0.9	499	179	678
1992-98 Increase	255%	256%	137%	

*Data on mailings for January through March and projected annually: data on credit lines and debt for end of March.

Sources: Data on mailings from BAI Global Inc.; data on credit lines-and debt from Veribanc, Inc.

The above table suggests two striking trends. First, total credit extended on bank cards (unused credit lines plus actual debt) rose to more than $2 trillion by the end of March 1998.

Second, in the past six years, bank mail solicitations and unused credit lines grew nearly twice as rapidly as bank card debt. Banks have been far less restrained in their marketing and credit extension than consumers have in their accumulation of credit card debt. That has been especially true recently. In the 15month period from the beginning of 1997 to the end of March 1998, all revolving credit increased 7.6% and bank card debt rose 23.5%, but unused bank credit card lines increased 50.3%.

This latter trend raises the question, why have banks expanded solicitations and credit lines while forced to write off increasing bad debt losses - according to Veribanc, from 3.0% of outstanding debt in 1994, to 3.4% in 1995, to 4.4% in 1996, to 5.4% in 1997, to an annual rate of 5.6% in the first three months of 1998? Despite the rising losses, for most banks credit cards are still profitable. During the past decade, credit cards have been the most profitable bank product. While profit margins have declined in recent years, for those banks marketing cards aggressively, they are still large enough to sustain huge debt losses and marketing expenses. As CFA's 1997 reports indicate, last year, consumers paid more than $60 billion in interest and about $10 billion in fees on credit cards. Banks collected the large majority of this revenue.

<u>Who Pays Credit Card Losses</u>

Credit card companies have run ads claiming that all bankruptcy related losses are paid by consumers -- an average of $400 per household per year. That would only be the case if creditors raised prices to cover bad debt losses.

There is little evidence that creditors have raised prices to cover increasing losses. A significant percentage of these losses represent credit card chargeoffs. But, as the table below shows, there is no relationship between bank card interest rates and chargeoff rates.

TABLE 3: BANK CARD INTEREST RATES AND CHARGEOFF RATES

	Interest Rates	Chargeoff Rates
1998*	15.70	5.6%
1997 _	15.8	5.4
1996	15.6	4.4
1995	16.0	3.4
1994	15.7	3.0

Sources: Interest rates from Federal Reserve Board; chargeoff rates from Veribanc, Inc.

The fact is that, for many years, bank decisions about credit card prices have been independent of credit card losses. For two decades, the average credit card interest rate has hovered around 18% (1.5% on the unpaid balance monthly). (The rates reported by the Fed are somewhat lower than that of other data sources such as Bank Rate Monitor.) These rates are the highest which banks believe they can charge.

It is true that, recently, banks have raised prices for some of their riskiest customers. They have hiked typical late payment and over-the-credit limit fees to $25 and have raised the interest rate charged to many of these late payer and over-thelimit customers to well over 20%. But these fees are paid mainly by a minority of customers. CFA's 1997 reports estimated that about one-third of households with a card pay off all balances in full, and most other cardholders make payments on time and do not exceed credit limits.

Who, then, pays for the credit card losses? In the past several years, a portion has been paid by the minority of cardholders who were assessed most fees. But most of these losses have been "paid" by bank investors to the extent bank stocks have been depressed by declining credit card profitability. Most of the roughly $20 billion in bank card losses last year was borne by investors who earned a lower return on their investments. At most, only several billion dollars of this amount can be attributed to rising credit card fees.

<u>Which Banks Extend the Most Credit and Do So Most Prudently</u>

Just as the portion of credit card debt held by banks has increased recently, so too has the portion held by a few big banks. As the table below shows, at the end of last year, a few banks held more than half of all bank card debt. In fact, if announced mergers had been consummated, five institutions -Citicorp; MBNA; Banc One/First Chicago; Chase Manhattan; and BankAmerica/Nationsbank/Barnett -- would have held 53% of all this debt. (These institutions also accounted for most recent mail solicitations; in fact, in 1997 Banc One accounted for more than one-quarter of all mailings.)

TABLE 4: BIG BANK CREDIT CARD DEBT AND NET CHARGEOFFS

	Debt* (12-31-97)	Net Chargeoffs As % of Yearend Debt (1997)**
Citicorp	$57.5 billion	4.2%
MBNA	48.3	2.2
Banc One	40.7	6.0
Chase Manhattan	35.2	3.6

First Chicago	18.7	6.2
BankAmerica	11.8	5.8
Nationsbank	10.0	5.6
First Union	8.2	8.2
We11s Fargo	6.9	**7.5**
Wachovia	**6.9**	**3.6**
US Bancorp	5.7	**4.0**
PNC Bank	**4.0**	**4.7**
People's Mutual	3.4	**2.4**
Fleet Financial	3.1	**6.2**
Norwest	**2.5**	3.9
First National (Neb.)	2.4	7.5
Bank of Boston	2.3	5.1
Mellon Bank	2.3	13.5
KeyCorp	**1.9**	**6.3**
Corestates	1.6	**13.1**
Barnett Banks	1.5	**3.8**
National City	1.5	**4.1**
First-of America	1.4	**5.0**
Crestar	1.2	**6.8**
SunTrust	**1.1**	**3.9**
Mercantile Bancorp	1.1	7.6

*Debt includes that held by institution and that which was securitized. **Chargeoff rate computed only on debt held by institution.

Source: Veribanc, Inc.

The chargeoff rate is the best indicator of the prudence and responsibility of *institutions extending* credit. It is not a perfect index; for example, it can be inflated by selloffs of debt (securitization) and deflated by rapid increases in outstanding debt. Nevertheless, it is accurate enough to be used as an important statistic by investors.

Banks with chargeoff rates below 3%, even if they market aggressively, do so fairly prudently and responsibly. on the other hand, banks with chargeoff rates above 6% are highly likely to extend too much credit to high-risk consumers. Even if their bank card operations are profitable, they are lucrative at the expense of many consumers who are loaded up with debt that they will not be able to repay. It is hypocritical of these creditors to complain that they need bankruptcy relief.

Creditor Strategies to Restrict Consumer Access to Bankruptcy

Last year, credit card companies and banks organized a campaign to restrict consumer access to Chapter 7 bankruptcy. (In Chapter 7, all or nearly all unsecured debts are discharged..: in Cbapter 13, most debts are repaid over time.) This campaign has been extensively reported on by the press. (For example, see Jacob M. Schlesinger's lead article in the June 17, 1998 issue of The Wall Street Journal.) Campaign strategies include:

- research disseminated, among other means, in advertisements;
- campaign contributions totalling millions of dollars;
- lobbying the National Bankruptcy Review Commission;
- lobbying of Congress that cost Visa and MasterCard alone more than $2 million in 1997;

- o grassroots lobbying by creditors in congressional districts and states; and
- o attempts to intimidate the bankruptcy bar.

CFA asked the Center for Responsive Politics to compute the campaign contributions of big banks in the 1997-98 cycle. They found that the 25 largest credit card ban=ks made $`? . 6 million in PAC, soft money, and individual contributions. Interestingly, the big five banks (noted in the previous section) contributed more than $2.5 million of this amount.

Why were these contributions made? Certainly the banks wished to influence legislators on financial services issues other than bankruptcy reform, especially modernization. But it should be noted that, since legislation passed by the House is predicted by the industry to reduce bankruptcy losses by about $4 billion annually, if this bill becomes law, big banks could well recover an additional $2 billion or more a year from their political "investment" of several million dollars.

<u>How Consumer Insolvencies, Including Bankruptcies Can Be Reduced</u>

It is unclear whether contemplated bankruptcy reforms will reduce personal bankruptcies, let alone consumer financial insolvencies. On the one hand, restricting access to Chapter 7 bankruptcy, together with other proposed measures, would prevent consumers from discharging as much debt and would probably discourage them from declaring bankruptcy as frequently. On the other hand, by allowing creditors to collect more debt, bankruptcy reforms would encourage credit card banks to market and extend credit more aggressively. Thus, it is quite possible that these reforms would aggravate the problem of consumer financial insolvency.

At the very least, bankruptcy legislation should include creditor responsibility measures that reward responsible credit granting and punish irresponsible credit extension. Here, irresponsibility is defined as granting credit to consumers who are highly likely to default on their debt obligations. One specific measure Congress should seriously consider is to make it difficult for lenders who extend credit to consumers with high consumer debt to income ratios to collect this debt in any bankruptcy proceeding, even one involving Chapter 13. Since most experts believe that consumer debt to income ratios (excluding mortgage debt) should not exceed about 20%, 40% is a ratio that should be considered as a threshhold.

While in most instances it is not politically practical to require aggressive and irresponsible credit grantors to "cease and desist," these lenders could be identified, criticized publicly by opinion leaders, and jawboned privately by regulators. Most of those big credit card banks with chargeoff rates over 6%, for example, should be on this list.

Regardless of the success of any of these efforts, many consumers must use credit cards more intelligently. Frankly, for most consumers it is foolish to carry any balance on credit cards. The large majority of the more than $70 billion cardholders are paying each year in interest and fees is wasted; it could be allocated much more sensibly and satisfactorily on other goods and services or on savings.

Even more foolish than carrying large credit card balances for a long time is using home equity to refinance credit card debt without curbing credit card use. Fed research suggests that over 40% of home equity borrowing is used to refinance consumer debt. Even more recent research, by Brittain Associates Inc., indicates that about two-thirds of households that use home equity loans to refinance credit card debt run up new credit card debts. In the future, particularly in any recession, many of these households risk losing their homes.