

**TESTIMONY OF RICHARD VAGUE
CEO, BARCLAYS BANK DELAWARE
BEFORE THE SENATE COMMITTEE ON BANKING, HOUSING,
AND URBAN AFFAIRS**

**“Examining the Billing, Marketing, and Disclosure Practices of
the Credit Card Industry, and Their Impact on Consumers”**

January 25, 2007

Good morning Chairman Dodd, Ranking Member Shelby, and members of the Committee. My name is Richard Vague and I am CEO of Barclays Bank Delaware. Barclays Bank Delaware is a credit card issuer with approximately \$4 billion in receivables. The majority of our cards are issued in partnership with other organizations who license us to use their brands and to solicit cards to their members or customers. We partner with a variety of organizations, such as airlines, stores, and charities. We are presently the 13th largest credit card issuer in the United States and one of the fastest growing. I appreciate the opportunity to appear before you today to discuss credit cards and consumers. Mr. Chairman, I applaud you and this Committee for examining this important issue and for considering ways to improve consumer understanding of credit cards. I also want to thank my own senator, Senator Carper, for his leadership on these issues.

It is fair to say that, in the realm of consumer finance, the credit card is one of the greatest developments of the 20th century. It is widely recognized that credit cards represent the democratization of credit. Although we take credit cards for granted today, it was quite phenomenal to develop a product that allows a consumer to present a card and obtain merchandise with no money physically changing hands. Today consumers can use credit cards around the world and on the Internet to make purchases at millions of merchants. Not only do

credit cards give consumers this purchasing convenience, but consumers also have the option to use their credit cards as a mechanism to obtain an interest-free loan simply by paying their bill in full each month. Consumers who use credit cards also receive enhanced consumer protections compared to cash and checks, and a detailed periodic accounting of the consumer's spending to boot. In short, credit cards provide consumers with convenient and safe options to make purchases and to borrow money. Given the enormous consumer benefits associated with credit cards, it is no surprise that Federal Reserve Board staff studies consistently suggest that 90% of consumers are satisfied with their credit card issuer.

It is also important to note that the vast majority of credit cardholders use credit cards responsibly. It is in nobody's interest to provide credit cards to consumers who cannot repay the money they have borrowed. For that reason, issuers strive to provide credit cards only to consumers who can handle the credit offered to them. Banks that lend indiscriminately to consumers obviously will not be in this business for long.

Having said all of this, Mr. Chairman, credit card products have become more diverse over the years. No longer are most cards priced with a 19.8% APR and a \$20 annual fee while being made available only to consumers on the higher end of the credit spectrum. Credit card issuers have become much more sophisticated with respect to providing a wide variety of consumers with cards that have a wide variety of features. Now consumers can find credit card products with a variety of interest rates, benefits, rewards, and fee schedules. Importantly, the average rate has gone down over the years. This is a result not only of increased sophistication, but also of intense competition within the credit card industry and from other payment providers

as well. Without doubt these innovations are positive developments. With these increased product offerings, however, comes the need to ensure that consumers understand the features of the various credit card products offered to them.

I believe that credit card disclosures could be greatly improved. I think most other credit card issuers would agree. But we need help to make this happen. Credit card issuers must comply with complicated, detailed, and lengthy regulatory requirements, meaning that disclosures tend to be complicated, detailed, and lengthy. Additionally, every time there is new litigation, it seems another legal disclosure needs to be added. We need a new, clear, and simple disclosure structure that allows us to draft our disclosures in plain English—not lawyerspeak—highlighting the terms consumers find important in a manner that is easy to understand. In fact, an updating of disclosure regulations appears to be the sole recommendation of the GAO in the context of its broader study of credit card disclosure issues. Focusing consumer disclosures on key terms is not a new concept. In fact, it is the basis for the existing Schumer box disclosures. Card issuers that comply with this new structure should also be protected against a barrage of new lawsuits and the resulting lawyerspeak that would inevitably creep back into the disclosures as a result.

Mr. Chairman, I firmly believe that effective disclosures are the key to ensuring that consumers understand the material terms and features of credit card products. An informed consumer can then decide whether a credit card is right for him or her. After all, there is no shortage of credit card issuers and products from which consumers can choose if the practices of any given issuer, or the terms of any given offer, do not meet the consumer’s liking. I would

strongly caution Congress against the adoption of legislation that would have the effect of imposing price controls or similar limitations with respect to credit card products. The fact is this: price controls do not work. They would likely result in an increase in other costs associated with credit cards, reduced benefits, or a reduction of credit availability to those who are on the lower end of the credit spectrum with a corresponding adverse impact on the economy. Nobody wants to return to the days of relatively uniform card offerings available only to limited numbers of consumers at higher prices.

Mr. Chairman, this concludes my testimony and I would be happy to answer any questions you or members of the Committee may have.