

STATEMENT OF  
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U.S. SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS  
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Mr. Chairman, Members of the Committee, good morning. My name is Carter Franke; I am the chief marketing officer at the Wilmington, Delaware-based Chase Card Services division of Chase Bank U.S.A., N.A.

I am proud to represent, today, more than 16,000 Chase employees around the country who serve the needs of more than 100 million Chase credit card customers.

I am also proud to represent an industry that has become integral to American life and is one of our economy's principal engines of growth. Last year, credit cards were used to purchase nearly \$2 trillion worth of goods and services from more than 25 million merchants. This inter-reliance among American consumers and businesses, both large and small, is one of the great economic success stories of the last several decades.

It is also important to note that credit cards have been absolutely critical to the rapid development of business over the Internet, one of the fastest growing and most exciting market places in history.

The credit card business at Chase, like other businesses, is based on our relationship with customers. The great majority of Chase customers fall into the "super-prime" and "prime" categories. This means they are the most responsible and knowledgeable credit users in the country. Well over a third of them pay their balances in full, enjoying the convenience of an interest free loan every month – something that is unique to credit cards. And more than 90 percent of our payments are for more than the minimum. We appreciate our customers, and we believe our success is based on maintaining a good relationship with every one of them.

That is why more than 80 percent of our employees are devoted to directly serving customers, and why we are continually developing technology to bring customers closer to the information they need in order to see, understand and manage their accounts.

Customers have asked us to help them avoid late and "over-the-limit" fees and maintain the best interest rate available. So Chase developed a service called "Free Alerts." Customers can choose a telephone, email or text message alert that reminds them when a payment is due and when a payment has been posted to their account – or notifies them when their spending has reached their self-determined limit.

We continue to see increased usage of our online service, which has recently been improved again, in order to give customers the ability to manage their accounts. Now, they have increased ability to make fast, free electronic payments and sign up for Chase

Automatic Payments on the exact day they are due, to avoid late fees and retain access to their funds for the maximum amount of time.

We have developed supplemental materials for customers that clearly state the “rules of the road” of their credit card so that they will have clear information to guide them in avoiding fees and having their interest rates raised.

We believe all consumers, customers or not, need to increase their financial literacy. That is why we have made more than \$20 million in grants to community based organizations to help fund credit education programs over the past two years. We have donated almost \$80 million to fund credit counseling services, create online financial education and credit and debt management tools. We believe the responsible use of credit cards by our customers helps develop the best, long-term relationship with them. We want to do our part to support their efforts to be responsible.

With this in mind, we are measured in our approach to student lending, which is a relatively small portion of our portfolio. Our objective is to establish long-term relationships with students so they will continue to do business with us all their lives. Approached with care, we find that students have proven to be good customers, capable of handling credit card borrowing responsibly. We support several financial education programs for students that we believe have helped in developing the responsible behavior of these young people.

The importance of customer relationships is a key driver of many of our business decisions. For example, a missed payment on a non-Chase card does not result in an automatic re-pricing of any Chase account. Only a small segment of our customers will have a change in credit worthiness. When they do, we deal with them fairly and responsibly.

For example, if a customer’s overall credit profile deteriorates significantly, and therefore exposes us to an increased risk that their balance will not be paid, we provide that customer with an “opt out” option. This means that the customer may reject any change in terms, close their account, and pay off the balance under their existing terms.

We believe the vast majority of our customers feel they are being treated fairly. This is an extremely competitive industry, and customers have many attractive credit card offers to choose from. Still, a relatively small percentage of our customers leave us each year for our competitors.

Because of the competitive nature of the industry, the American consumer today enjoys a credit card offering far more attractive than a generation ago. According to the recent GAO report, fifteen years ago the average interest rate was roughly 20 percent and cards had annual fees of \$20 or more. Today, says the GAO, the average interest rate is 12 percent and, in addition, nearly 75 percent of credit cards do not have annual fees. And to the concerns raised in many quarters that consumers pay ever higher fees, the GAO report found that the total annual and penalty fees were roughly the same in 2004 as they

were in 1990 – reinforcing the point that consumer fee levels have remained under control. In fact, according to the report, half of all card holders pay their bill in full every month, paying no fees and no interest.

Because of competition, consumers enjoy lower interest rates and much wider access to credit cards than ever before. We have moved from a “one size fits all” credit card pricing structure to a much more risk-based approach to pricing that – let us be very clear – rewards the responsible credit card user with low rates and the ability to avoid fees.

Now, having mentioned some of the data from the GAO report, let me address the issue that report, and many others, have raised. The GAO concluded that, in the words of its title, there is a “Need for More Effective Disclosures to Consumers.”

At Chase, we are working on this. We believe that disclosures are the key to a successful customer relationship, and we are committed to keeping our customers fairly informed of every aspect of their accounts. Well-informed customers are the most likely to understand and appreciate our products, and to use them wisely.

We pay strict attention to the standards that the Federal Reserve Board has set for credit card disclosures including the level of detail we are required to provide and the specific language they suggest.

However, we believe that the volume and types of disclosures mandated by federal and state laws have not led to greater clarity. Our customers are telling us that today’s disclosure lacks sufficient clarity.

We would like to see more effective disclosures that help customers understand the aspects of the credit relationship that are most important to them. As the GAO report acknowledged, the credit card industry, including Chase, has advocated various ways to improve disclosures.

First, I’d like to say that better disclosures may not mean *more* disclosures. Disclosure language should be simple, clear and focused on the most relevant terms and conditions consumers need to understand.

There is required language that we must use to describe the terms of our customers’ relationship with us. Sometimes that legal language is difficult to understand.

So in addition to that language, we have developed supplemental language designed to help customers understand how they can best use their credit cards and avoid fees and having their interest rates raised.

We also believe that regulators and the industry need to work together to improve the clarity and understandability of the mandated language as well.

We not only welcome, but also actively seek, the opportunity to work with regulators to make significant improvements that provide consumers with clearer, more effective disclosures.

Mr. Chairman, we look forward to working with you and the Members of the Committee today to answer your questions and address your concerns.

Thank you.