

Prepared Statement of

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

**Before the U.S. Senate Committee on
Banking, Housing, and Urban Affairs
The Honorable Christopher J. Dodd, Chairman**

9:30 a.m., Thursday, January 25th, 2007 – 538 Dirksen Senate Office Building

I would like to thank Chairman Christopher J. Dodd for providing this opportunity to share my views with the Committee on the increasingly important issue of deceptive credit card marketing and consumer contract disclosures during this rapidly changing period of banking deregulation and the increasingly negative impact of the unprecedented high consumer debt levels. This Committee has a long tradition of examining and protecting consumer rights in the realm of financial services and I hope that this hearing will produce new relief to financially distressed and overburdened households as they cope with the increasingly complex credit card policies and practices. In this endeavor, I have had the pleasure of contributing to now retired Senator Paul S. Sarbanes' investigation of consumer debt among college students and the lack of financial literacy/education programs for America's financially vulnerable youth. In addition, I applaud the legislative initiatives of Senator Christopher Dodd, who has championed credit card marketing restrictions on college campuses along with critically needed financial education programs as well as directing greatly needed attention to ambiguous contract disclosures and deceptive marketing practices. Also, it is a pleasure to acknowledge the State of New York's senior Senator, Charles E. Schumer, whose efforts to protect consumers from deceptive marketing and contract disclosure practices of the credit card industry has simplified our lives through the summary of our key credit card contract information in our monthly statements. The twin issues of rising cost and levels of consumer debt together with shockingly low levels of financial literacy among our youth and their parents have grave implications to the continued economic well-being of the nation—especially as Americans age into debt and watch the erosion of their Social Security benefits. For these and many other reasons, I commend the Committee for accepting the daunting task of examining the increasingly serious problems that will be addressed today.

As Research Professor of Consumer Finance and Director of the Center for Consumer Financial Services at Rochester Institute of Technology, I have spent the last 21 years studying the impact of globalization and U.S. industrial restructuring on the standard of living of various groups in American society. Over the last 15 years, I have been particularly interested in the role of consumer credit in shaping the consumption decisions of Americans as well as the role of retail banking in influencing the profound transformation of the U.S. financial services industry. In regard to the latter, I have studied the rise of the credit card industry in general and the emergence of financial services

conglomerates such as Citigroup during the deregulation of the banking industry beginning in the late 1970s.

In terms of the former, my research includes in-depth interviews and lengthy survey questionnaires with over 800 respondents in the 1990s and nearly 1500 in the 2000s. The results of this research are summarized in my book, *CREDIT CARD NATION: America's Dangerous Addiction to Consumer Credit* (Basic Books, 2001) and a forthcoming series of research articles. More recently, I completed a book length report sponsored by LendingTree.com, *LIVING WITH DEBT* (2005), which examined changing attitudes and behaviors toward consumer credit and debt over six specific life-cycle phases through a series of 12 focus groups with nearly 150 people. Furthermore, I have been studying the global expansion of deregulated consumer financial services with particular attention to comparative governmental policies that enforce consumer rights in Europe, Asia, and Latin America. My next book, *GIVE YOURSELF CREDIT* (Alta Mira/Taylor Publishers, 2007), presents an updated analysis of the deregulation of the credit card industry, major public policy issues, and practical guidance for consumers for more prudent use of consumer credit. These interests in public policy and financial literacy have inspired the development of my own internet-based financial literacy/education programs at www.creditcardnation.com. In addition, I have collaborated on the development of a documentary, *IN DEBT WE TRUST: America Before the Bubble Bursts*, that examines the impact of the deregulation of consumer financial services (especially credit cards) on different economic groups in American society. In association with the national release of the movie, RIT's Center for Consumer Financial Services is organizing a "Fair and Responsible Lending" campaign that seeks to promote consumer friendly lending policies with banks and enhanced personal financial literacy/awareness skills among consumers.

LIVING WITH DEBT IN AMERICA:

Soaring Household Liabilities, Rising Costs, and Declining Consumer Protections

In early 2006, the approximately 190 million bank credit cardholders in the United States possessed an average of about 7 credit cards (4 bank and 3 retail) and they charged an average of \$8,500 during the previous year (Cardweb.com, 2004a; Card Industry Directory, 2006). In 2005, about 75 million (2 out of 5 account holders) were convenience users or what bankers disparagingly refer to as *deadbeats* because they pay off their entire

credit card balances each month.¹ In contrast, nearly 3 out of five cardholders or over 70 million are lucrative debtors or *revolvers*; they typically pay more than the minimum monthly payment (previously 2% and transitioning to 4% of outstanding balance as per a recent OCC “advisory”) while nearly 45 million struggle to send the minimum monthly payment (Cardweb.com, 2004a, Card Industry Directory, 2006).

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

Furthermore, it is important to note that the complexity of the deregulated lending environment is reflected in technically “discrete” categories of consumer debt that were previously homogeneous—like mortgage debt—but now are essentially composite categories of a wide range of consumer loans. This is due to the sharp decline mortgage rates and underwriting standards of the 2000s—especially 2001-05—that were driven by the growth of asset-backed securities by Wall Street (usually “sister” firms within the major financial services companies) that are resold on the national and international secondary investor markets. This is manifest in the sharp decline in the growth of “revolving” consumer credit card debt in comparison to “nonrevolving” or installment debt such as auto, furniture, and appliance loans in the 2000s. For example, between 1995 and 1999, credit card outstandings rose an average of 9.5% whereas nonrevolving rose an average of 7.3%. Following the 2000 recession, however, installment borrowing rose averaged 7.5% per year whereas the revolving average plummeted to 1.2% over the period 2001 to 2005. If “net” credit card debt had continued to increase at the same level as the late 1990s, like

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

lower interest installment debt, it would be approximately \$300 billion higher at the end of 2006. Like college students using student loans to pay down their credit card balances (Manning, 2000: Ch 6; Manning and Kirshak, 2005; Manning and Smith, 2007), homeownership families converted and thus reclassified their high interest revolving debt into lower-cost mortgage debt in the 2000s. Unfortunately, unexpectedly high lender fees and adjustable rate mortgages have sharply reduced the cost saving in these debt consolidation decisions.

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

Banking Deregulation and the Ascent of Retail Financial Services:

What's Consumer Debt Got to Do With It?

The debate over the origins of the consumer lending "revolution" and subsequent requests for government regulation tend to focus on either the "supply" or "demand" side of this extraordinary transformation of the American banking industry with its profusion of new and complexity banking/insurance products. This section explores how statutory and regulatory reforms over the last three decades have fundamentally changed the structure of

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

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

According to Jonathan Brown, Research Director of *Essential Information*, there are three systemic contradictions of *laissez-faire*-driven banking deregulation that limit “broad-based” consumer benefits. In brief, they are [1] excessive risk-taking by financial institutions that are facilitated by publicly financed deposit insurance programs (FDIC) and publicly subsidized corporate acquisitions of insolvent financial institutions (Savings and Loan crisis of early 1980s); [2] increased industry concentration and oligopoly pricing policies (in the absence of a strong anti-trust policy) that limits cost competition over an extended period of time; and [3] diminished access to competitive, “mainstream” financial

services for lower income households as corporations focus their resources on more affluent urban and suburban communities. Brown concludes by underscoring the paradox of “free market”-driven banking deregulation, “strong prudential control [by government and consumer organizations] becomes even more important because deregulation increases both the opportunities and the incentives for risk-taking by banking institutions [in the pursuit of optimizing profits rather than public use]” (Brown, 1993: 23). For our current purposes, the latter two trends merit further discussion.

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

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

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

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

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

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

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

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

For example, Banc One’s acquisition of credit card giant First USA in 1997 was followed in 1998 by Citibank’s purchase of AT&T’s credit card subsidiary--the eighth largest

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

card issuer. Over the next eighteen months, MBNA bought SunTrust and PNC banks, Fleet merged with BankBoston, Bank One acquired First USA, NationsBank merged with Bank of America, and Citibank bought Mellon Bank. Today, the ongoing concentration of the credit card industry features the mergers of increasingly larger corporate partners. In 2003, Citibank purchased the troubled \$29 billion Sears MasterCard portfolio (Citibank, 2003). This was followed in 2004 with Bank of America's acquisition of Fleet Bank (tenth largest U.S. credit card company) and J.P Morgan Chase's purchase of Bank One (third largest credit card company). As a result, the market share of the top 10 banks climbed from 80.4 percent in 2002 to 86.7 percent in 2003 and then to 88.1 percent in 2004 (Card Industry Directory, 2005). In 2005, this market concentration continued with Bank of America's acquisition of MBNA. Overall, the top three card issuers (J.P. Morgan Chase, Citigroup, Bank of America,) controlled over 61.8 percent of the market at the beginning of 2006 as defined by their proportion of outstanding credit card debt. See Table 3. This extraordinary pace of industry concentration explains the increased premiums that these major credit card companies have been paying for Private Label store credit card portfolios such Home Depot, Victoria Secret, and Macy's.

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

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

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

By the late 1990s, two financial services behemoths sought to bridge the statutory divide between commercial banking and the insurance industry by combining their different product lines into a single corporate entity: Citigroup. Technically, the 1998 merger of Citibank and Travelers’ Insurance Group was an illegal union that required a special federal exemption until the enactment of the *Financial Services Modernization Act* (FSMA) of 1999 (Macey and Miller, 2000; Manning, 2000: Chapter 3; Evans and Schmalensee, 2005).⁴ With cost-effective technological advances in data management systems together with U.S. Congressional approval of corporate affiliate sharing of client information (FSMA) and the continued erosion of consumer privacy laws (*Fair Credit and Reporting Act* of 2003), Citigroup became the first trillion dollar U.S. financial services corporation that offered the “one-stop” supermarket model for all of its clients’ financial needs. These include retail and wholesale banking, stock brokerage (investment) services, and a wide-array of insurance products for its customers in over 100 countries. Again, bank credit cards played a crucial role through the collection of household consumer information, the cross-marketing of Citigroup products and services, and its high margin cash flow that helped in offsetting costly merger and integration-related expenses (Manning, 2000: Ch 3). Ironically, the much faster growth and profitability of its retail banking operations led Citigroup to sell off its Traveler’s insurance divisions to Met Life in 2005.⁵

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

⁵ Citigroup’s consumer financial services companies have outperformed the insurance division in growth and profit margins—especially after 2001. As a result, Citigroup has retreated from its one-stop, financial

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

The significance of this trend is two-fold. First, the systematic withdrawal of First-tier banks from low-income communities restricts the access of these residents to reasonably priced financial services. Although morally reprehensible, banks frequently justify their actions in terms of economic efficiencies and profit utility functions that are arbitrated by “free-market” forces. The political reality, however, is that this policy is a defiant rejection of the affirmative obligation standard of the *Community Reinvestment Act* (CRA) of 1977 (Brown, 1993, Fishbein, 2001; Carr, 2002). That is, the banking industry receives enormous public subsidies through (1) depositor protection programs/policies, (2) access to low-cost loans through the Federal Reserve System’s lender of last resort facility, and (3) privileged access to the national payments/transactions system (Brown, 1993). The *quid-pro-quo* for satisfying this affirmative obligation standard has been an understanding that banking institutions have a duty to provide access to financial services to disadvantaged groups within their local communities, to engage in active marketing programs for promoting these financial services and products, and, in the process, to absorb some of the administrative expenses and costs of their financial products/services. By

supermarket concept and has agreed to sell its Travelers Life & Annuity division to Metlife Inc for \$11.5 billion in winter of 2005 (Reuters, 2005b).

ignoring their responsibility to CRA, First-tier financial institutions have invariably increased the population of “necessitous” consumers whose limited resources exacerbates their reliance on “Second-tier” financial services and their vulnerability to predatory lenders.

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

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

Furthermore, major banks are aggressively promoting “subprime” consumer lending programs with triple digit finance charges (effective APRs) such as HSBC’s partnership with H&R Block’s Rapid Advance Loan (RALs) and Capital One Bank’s fee-

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

Although the professed rationale for the passage of the more stringent Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 was consumer abuse of the Chapter 7 liquidation codes that increased costs to financially “responsible” consumers due to higher credit card charge off rates and downward pressure on corporate profits (cf. Warren, 2002), the financial health of the credit card industry has never been better. In fact, the year that the BAPCPA was enacted, credit card charge-offs declined 4% (from \$36.4 to 35.1 billion). Furthermore, the credit card industry has reported a succession of record profits. In 2003, pre-tax profit (Return on Investment) of \$17.1 billion climbed 32.4% from 2002 even though interest revenue declined slightly from \$66.5 to \$65.4 billion (Card Industry Directory, 2005). According to the June 2003 FDIC report on bank profits, [First Quarter 2003] “is the largest quarterly earnings total ever reported by the [banking] industry... [and] the largest improvement in profitability was registered by credit card lenders [with] their average Return-On-Assets (ROA) rising to 3.66 percent from 3.22 percent a year earlier;” The Card Industry Directory (2004) reports 2003 ROA at 4.02 percent and credit card industry analyst

⁶See *Foster v. Capital One Bank, et al* for ongoing class action lawsuit regarding deceptive marketing and excessive fees for the “Capital One Visa Premier” credit card that features 0% introductory APR on all purchases and a variety of fees including \$39 annual membership and \$49 “refundable security deposit.

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

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

One of the most striking features of the deregulation of the U.S. banking industry is the sharp increase in the cost of “revolving” credit (Ausubel, 1991; 1997; Manning, 2000). For instance, the ‘real’ cost of borrowing on bank credit cards has more than doubled due to widening interest rate “spreads” (doubled from 1983 to 1992) in addition to escalating penalty and user fees. The former is a result of the 1978 US Supreme Court (Marquette

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

National Bank of Minneapolis v. First National Bank of Omaha) decision that permitted banks to relocate their corporate headquarters simply to find a “home” where they could essentially “export” high interest rates across state boundaries and effectively evade state usury regulations (GAO, 1994; Rougeau, 1996; Manning, 2000; Evans, and Schmalensee, 2001; Lander, 2004). The largest credit card issuers, led by Citibank, swiftly moved to states without interest rate ceilings. This relocations strategy of major nationally chartered banks has essentially eliminated a publicly legislated lending rate or state “usury” cap. See Appendix A for the state headquarters of the largest credit card issuers. The dramatic increase in fee revenues is attributed to the 1996 U.S. Supreme Court decision, Smiley v Citibank, which ruled that credit card fees are part of the cost of borrowing and thus invalidated state imposed fee limits (Macey and Miller, 1998; Evans and Schmalensee, 2001; Lander, 2004). Overall, penalty and cash advance fees have climbed from \$1.7 billion in 1996 to \$12.0 billion in 2003 to \$16.4 billion in 2005.. The average late fee has jumped from \$13 in 1996 to over \$30 in today. Incredibly, combined penalty (\$7.9 billion) and cash advance (\$5.3 billion) fees of \$13.2 billion exceed the “net” after-tax profits of the entire credit card industry (\$12.03 billion) in 2005. See Table 5.

In conclusion, banking deregulation has produced an economic boom for the U.S. financial services industry. In the 1990s, it recorded eight successive years of record annual earnings (1992-1999) and rebounded with five successive years of record profits since the end of the 2000 recession, (FDIC, 2004; Daly, 2002). In fact, the assets of the ten largest U.S. banks total \$3,552 billion at the end of June 2003—an astounding increase of 509 billion from 2002 (16.7%). Overall, the assets of the ten largest U.S. banks exceed the cumulative assets of the next 150 largest banks (American Banker, 2003). And, this trend does not appear to be abating. Today, rising interest rates (most credit cards feature variable interest rates where retroactive rate increases can be easily triggered unilaterally by the card issuer), growth of POS transaction fees (credit and debit) for low cost items (under \$5), higher fee schedules, improving debt “quality,” and the 15-18% price premiums for the sale of asset-backed or “securitized” credit card debt portfolios in the secondary market to American and global investors. This latter trend is especially disconcerting as it reflects a market concentration outcome whereby major card issuers have become less concerned about consumer debt/income capacity issues since the robust housing market has led to declining credit card debt charge-offs and they are reaping huge profits through portfolio sale premiums and account processing for investors. My concern is that major

lenders are becoming more concerned about satisfying the performance of these securities to investors than working closely with financially distressed consumers who fall behind in their payments. In some cases, we are seeing investors reluctant to work directly with delinquent debtors since a specified default rate is already priced into the sale price of the security. This could have major implications as we examine the relationship between credit card and mortgage debt.

IN DEBT WE TRUST:

Seduction, Indulgence, or Desperation?

The increasing societal dependence on consumer credit since the onset of banking deregulation in the late 1970s is staggering. Between November 1980 and November 2005, revolving “net” credit card debt has climbed fifteen-fold, from about \$51 billion to over \$770 billion at the end of 2006. Similarly, installment debt has jumped from \$297 billion in 1980 to \$1,520 billion today. Overall, U.S. household consumer debt (revolving, installment, student loan) has soared from \$351 billion in 1980 to nearly \$2,200 billion in 2006. Together with home mortgages, total consumer indebtedness is crossing the \$15 trillion mark—with the vast majority—about \$13 trillion—in “mortgage” debt (U.S. Treasury, 2006). This trend is especially significant since the U.S. post-industrial economy has been fueled by consumer related goods and services that account for almost 70% of America’s economic activity (Gross Domestic Product). In fact, U.S. households have continued to accumulate soaring levels of consumer debt even though real wages have declined between 2000 and 2005 with some positive relief in 2006. This compares with moderate wage growth in the preceding five years (1995-2000) which demonstrates a startling lack of association between family income and household debt accumulation trends (Mishel, Bernstein, and Allegreto, 2007). See Table 6. As a consequence, the U.S. personal savings rate has plummeted to negative levels since summer 2005—the first time since the Great Depression in 1933. See Appendix B.

Several factors help to explain the record-setting debt burden of American households—especially middle class families. First, as measured by share of disposable household income, the 1980s and 1990s feature the unprecedented growth of consumer debt—from 73.2 percent of personal income in 1979 to a staggering 131.8 percent in 2004. As shown in Table 7, the overwhelming proportion (95.8%) of household debt obligations is accounted by home mortgages ((Mishel, Bernstein, and Allegreto, 2007); between 1979

and 2001, the share of discretionary household income allocated to housing jumped from 46.1 percent in 1979 to 85.0 percent in 2003 (Mishel, Bernstein, and Allegretto, 2005). This pattern reflects two key trends. First, the “democratization” of consumer credit led to an extraordinary, post-2000 recession phenomenon: the suspension of the financial laws of gravity as real family income declined while housing prices soared—average metropolitan housing prices doubled between 2000 and 2005 (cf. Manning, 2005: Ch 1). As some scholars have persuasively argued, this reflects the rational calculus of middle and upper income Americans to purchase home with the best public schools, public services, and quality of life (cf. Warren and Tyagi, 2003). Second, the enormous increase in housing costs has diverted previous discretionary income that was used for other personal or family needs. Although mortgage debt is the least expensive consumer loan, this sharp increase has squeezed the ability of middle income households to pay for lifestyle needs and/or finance unexpected expenditures such as health care or auto repairs. This deficit spending model produced high interest credit card balances that were frequently reclassified as home mortgage/equity loan debt through home refinancings and other secured debt consolidation loans. This accounts for soaring mortgage debt levels (about \$6 trillion in 1999 to nearly \$13 trillion today) and home equity loans accounting for over one-tenth (11.6%) of household disposable income (Mishel, Bernstein, and Allegretto, 2007). See Appendix C.

As the negative economic consequences of globalization and the reduction of the US welfare state continued in the 1990s and 2000s, most American households steadfastly fought to maintain their fragile standard of living by financing their expenditures with lower personal savings and higher credit card and installment loans. In fact, as the U.S. personal savings rate fell to record lows in the late 1990s—near zero in 1998 (See Appendix B)—credit cards became the financial “safety net” for financially distressed and economically vulnerable households (cf. Warren and Tyagi, 2003; Demos/CRL, 2005). In 1980, over four-fourths (81.5%) of nonmortgage consumer debt was financed through low-interest, “secured” installment loans such as for autos, furniture, and electronics. For the first time, during and immediately after the 1989-91 recession, banks relaxed their credit card underwriting standards and consumer balances soared—from 36.2% of installment debt in 1989 to 52.8% in 1992. This was accompanied by mass marketing campaigns that promoted credit card use for “needs” as well as “wants” such as groceries, rent and mortgage payments, and even income taxes not to mention the incredibly successful “PRICELESS” MasterCard advertising campaigns. By 1998, outstanding credit card debt

was 68.9% of outstanding installment debt. This proportion has fallen due to new debt consolidation options such as mortgage refinancings, home equity loans, and aggressive marketing of low-interest auto loans. Indeed, home equity loans were not even available to consumers until the late 1980s as a response to tax changes arising from the enactment of the 1986 Tax Reform Act.

In the decade since the end of the 1989-91 recession, during the longest economic expansion in US history, “net” credit card debt surged from about \$251 billion in 1992 to about 770 billion today while installment debt jumped from \$532 billion to over \$1.5 trillion (U.S. Federal Reserve, 2007). See Appendix D. Significantly, scholars disagree over whether these new debt levels can be restrained. Juliet Schor (1998; 2005), has received national attention for asserting that a large proportion of consumer debt is avoidable since the pressures of competitive consumption are social and thus can be resisted by embracing traditional values and household budgeting/lifestyle behaviors such as thrift, frugality, and material simplicity that discourage discretionary consumption. Hence, Schor contends that “keeping up with the Jones” is a voluntary, personal decision that can be rejected by “downshifting” to a simpler, less expensive lifestyle. On the other hand, Elizabeth Warren and Amelia Warren Tyagi (2003; 2005) argue that the debt arising from the “two-income trap” is primarily due to the soaring costs of middle-class necessities such as housing, automobiles, medical care, education, and insurance. Their highly influential work contends that households have no recourse but to assume higher debt burdens as a rational response to increasing economic pressures such as health care, job loss/interruption, family crises, insurance, and education-related costs.

The role of structural factors in influencing the decision of middle class households to assume higher levels of debt is suggestive. Two other measures of financial distress as measured by the U.S. Federal Reserve Board are households with high debt burdens (40% or more of household income) and late payment (60 days or more) of bills. Between 1989 and 1998, the lower income, middle-class reported the most economic difficulty. For instance, the high debt service burdens of modest income households (\$10,000 to \$24,999) rose from 15.0% to 19.9% while moderate income households (\$25,000 to 49,999) rose from 9.1% to 13.8%; households with incomes over \$50,000 increased marginally to about 5% while those under \$10,000 rose from 28.6 percent to 32.0 percent. Similarly, late payments increased marginally among households with at least \$50,000 annual income to

about 4.4 percent (most increase since 1992) while the \$25,000 to \$49,999 group nearly doubled from 4.8 percent in 1989 to 9.2 percent in 1998; households with modest income (\$10,000 to \$24,999) remained unchanged at 12.3 percent (Mishel, Bernstein, and Boushey, 2003). In 2004, the strain of soaring household consumer debt among middle- and upper middle income households is most pronounced. For instance, the middle income households (41% to 60%) experienced the sharpest increase in delinquent bills—from 5.0% in 1989 to 10.4% in 2004—followed by upper middle-income families that rose from 5.9% to 7.1%, respectively. Significantly, the highest income households reported a sharp decline in bill payment delinquencies (Mishel, Bernstein, and Allegretto, 2007). See Table 8.

Since the sharp decline in consumer interest rates beginning in late 2000, lower finance costs have provided some measurable financial relief to American households. However, the greatest beneficiaries of this low interest rate period have been the highest income households. Between 1992 and 2001, middle-income households (\$40,000 - \$89,000) experienced an aggregate increase in their debt service burden (as a share of household income) whereas upper income households experienced a significant decline (28.6%)—from 11.2 percent to 8.0 percent. Overall, the debt service burden of the upper income earning households is about one half of the lower- and middle-income households in this period (8.0% versus 16.0%). This is consistent with the cost of credit card debt during the current era of financial services deregulation whereby convenience users receive free credit (plus loyalty rewards such as free gifts and cash) and revolvers pay double-digit interest rates and soaring penalty fees. In comparison, the working poor have witnessed a modest decline in their debt service burden, from 15.8 percent in 1992 to 15.3 percent in 2001 (Mishel, Bernstein, and Allegretto, 2005). During the 2000s, however, US household debt service obligations climbed to historic levels and are most burdensome to lower and middle-income households. The lower middle (21%-40%) and middle income families (41 to 60%) registered the steepest increases in household debt service as a share of Household income. Between 1989 and 2004, lower income families paid from 13.0% to 16.7% while middle income families saw their debt service rise from 16.3% to 19.4% (Mishel, Bernstein, and Allegretto, 2005). See Table 9. Clearly, banks recognized that the best customers in the risk-averse regulated, consumer lending system were those that could repay their loans whereas today the best customers are those that may never pay off their debts. Indeed, is previous estimates of household credit card debt accumulation are

accurate, the average revolver household would have over \$18,000 in credit card debt if not for the aggressive marketing of low-interest, home equity/house refi debt consolidation loans in the 2000s. Nevertheless, consumer debt is not necessarily a problem if the asset side of the household financial ledger is robust. Hence, a key question is whether asset formation is growing faster than debt accumulation among America's middle classes which would obviate many of the negative consequences of the middle class debt "bulge."⁹

As consolidation of the credit card industry accelerated at a rapid pace over the last two decades, banks responded by increasing their consumer credit card portfolios by increasing the debt capacity of existing clients and aggressively marketing bank and retail credit cards to traditionally neglected groups, such as college students and the working poor. For example, the Survey of Consumer Finance reports that the largest increase in consumer credit card debt was among households with a reported annual income of less than \$10,000. Between 1989 and 1998, the average credit card debt among debtor households soared 310.8 percent for the poorest households and 140.9 percent among the oldest households (Draught and Silva, 2003). The overall average for all debtor households during this period is 66.3 percent. Similarly, credit card debt jumped sharply among college students and young adults.

During the late-1980s, when banks realized that students would use summer savings, student loans (maximum limits raised in 1992), parental assistance, part-time employment, and even other credit cards to service their consumer debts, the spike in college credit limits contributed to the surge in "competitive consumption" across college campuses that has redefined the lifestyle of the "starving" student and provided an opportunity for college administrators to continue increasing the cost of higher education (Manning, 1999; 2000: Ch. 6; Manning and Kirshak, 2005; Manning and Smith, 2007) Today, credit card issuing banks are aggressively competing in this new "race to the bottom" marketing campaign as the moral boundary that has traditionally impeded brazen solicitations of teenagers has been breached with sophisticated marketing campaigns aimed

⁹ it is important to note that many important sources of financial liabilities are not included by the Federal Reserve in its reports on outstanding nonmortgage consumer debt and thus understates the degree of household economic distress—especially among lower income families. These include car leases, payday loans, pawns, and rent-to-own contracts. For example, a household that rents an apartment, acquired furniture from a rent-to-own store, leased its car, and took a payday loan to pay for groceries has a zero debt-to-income ratio—hardly an accurate measure of its financial distress.

at high school and even junior high students (Manning, 2003(b); Mayer, 2004; Manning and Smith, 2005; Ludden, 2005). Long gone are the days (late 1980s and early 1990s) when parents were required to co-sign a credit card account. Instead, banks have learned that students will assume higher levels of consumer debt at a much faster rate if their consumptive behavior is shielded from their parents. My recent research shows that the fastest growth of credit card use is among 16-18 year olds and the marketing of gift cards (especially during the holidays) serves to collect important demographic information that can be used in future marketing campaigns for minors (Manning, 2003). Furthermore, my most recent survey of credit and debt among minority college students found that a large proportion of lower income college students are being pressured by family members/friends to take out loans for them through their access to credit cards with a large proportion reporting low or partial repayment rates (Manning and Smith, 2007).

Although credit card industry sponsored research has sought to minimize the social problems associated with rising student consumer debt levels, typically with flawed quantitative methodologies that are based on proprietary data that “unfriendly” researchers are not permitted to examine (c.f. Barron and Staten, 2004; Manning and Kirshak, 2005), the growth of consumer debt at younger ages are undeniable trends among America’s youth. For parents and higher education professionals, this intensifying marketing of credit and gift cards to high school students provides both an opportunity to introduce/expand personal financial literacy programs as well as pose a daunting challenge in confronting college age social problems that are rapidly expanding into secondary schools. As a result, the marketing of credit cards to high school seniors and college freshmen suggests that their debt capacities will be stretched at much earlier ages which will increase the likelihood of not completing college as well as the possibility of consumer bankruptcy in their early to mid-twenties with its age-specific biases such as the nondischargeability of student loans. Recent studies suggest that the fastest growing groups of consumer bankruptcy filers are those that have previously registered the lowest rates: senior citizens and young adults under 25 years old (Sullivan, Warren, and Westbrook, 2000; Sullivan, Thorne, and Warren; 2001; Manning and Smith, 2005).

A final factor concerns consumer confidence and perception of household wealth. Over the last two decades, middle class households have become active participants in the stock market, either indirectly through their employer pension portfolios or directly through

personal investment accounts. When consumers are optimistic about the future, such as their job prospects or accumulation of wealth, they are likely to spend more financial resources--even if their current economic situation is unfavorable. As the stock market soared in the late 1990s, especially the NASDAQ, the psychological “wealth effect” encouraged many families to assume new financial obligations that exceeded their household income. Over the last five years, until recently, the “wealth effect” among middle income families was more likely shaped by rising housing/property values and investment in the equity markets. This is illustrated in Table 10 which reports stocks, other assets, total debt, and net worth by wealth class from 1962 to 2004.

The data is surprising. It reveals that only a small proportion of the US population has benefited from the enormous wealth that was generated during the longest economic expansion in U.S. history (Wolff, 2003). For example, between 1989 and 2001, the bottom 40 percent of American households increased their stock holdings from an average of only \$700 to \$1,800 while the next 20% (the middle income (41%-60%) households) increased modestly from \$4,000 to \$12,000 or about \$667 per year. In comparison, the upper middle income families (61% - 80%) experienced an increase of from \$9,700 to \$41,300 in stock assets. Between 2001 and 2004, moreover, all income groups reported a decline in the asset value of their stock holdings. However, this was counterbalanced by the rise in reported “other assets” which is primarily housing appreciation. During this three-year period, this asset value climbed 32.3% for the bottom 40% of American families, 30.7% for middle income families, 30.7% for upper middle- income families, 30.8% for the next highest 10% of households, and 27.6% for the top 1% of families by income. More important, however, is the much higher rate of growth of household financial liabilities: 34.9% for bottom 40%, 46.7% for middle income families, and 55.0% for upper middle income families. This trend has substantially reduce household wealth formation. Overall, the respective growth in household “net worth” increased -24.1% for lowest 40% of families, 9.1% for middle income families, 13.1% for upper middle income families, and 17.1% for the affluent households (Mishel, Bernstein, and Allegretto, 2007). In view of the growing number of adjustable and interest only loans that are are resetting over the next three years, most households will find themselves with higher interest debts and lower property values that will erase their asset formation gains of the 2000s. Indeed, a 10% decline in property values could eliminate the wealth gains for nearly 60% of American households during the housing boom of the last five years. Furthermore, due to home equity and mortgage refis,

most Americans will find that the rising cost of homeownership will result in increasing credit card balances that will trigger higher finance rates.

With falling property values, I expect that a distinguishing feature of the post-bankruptcy reform period is that homeownership—which previously enabled families to avoid financial insolvency through unexpected robust price appreciation--will propel increasing numbers of middle income households into a much more costly and less sympathetic Federal Bankruptcy Court system. It is this failure to reform the existing consumer bankruptcy system—especially the traditional dichotomy of either repaying all (Chapter 13) or little/none (Chapter 7) that fails to recognize the reality of a new group of middle income debtors. This trend became apparent in the late 1990s when robust economic growth and falling underemployment rates coincided with soaring bankruptcy rates which many scholars directly and indirectly attribute to rising credit card debt and interest rate levels (Ausubel, 1997; Sullivan, Warren, and Westbrook, 2000; Manning, 2000). See Appendix E. First, the soaring growth of unsecured credit card debt takes off in the mid-1980s and is accompanied by the dramatic increase in consumer bankruptcies; between 1985 and 1990, consumer bankruptcy filings more than doubled from 343,099 to 704,518. In the aftermath of the 1989-91 recession, consumer bankruptcy filings closely follow the effect of rising unemployment through 1992 (steadily rising to 946,783) and then fall moderately with declining unemployment rates through 1995 (843,941). In 1995, however, consumer bankruptcy filings exhibit a profoundly different relationship with fluctuations in the rate of unemployment. Indeed, this underscores the second salient feature of contemporary American bankruptcy filing trends: an inverse correlation with unemployment levels. That is, the robust economic expansion of the late 1990s, which generated over 220,000 new jobs each year, produced a substantial drop in U.S. unemployment AND a sharp increase in U.S. consumer bankruptcy filings. This historically unprecedented relationship persisted through 1998 when bankruptcies registered an all-time high of 1,418,954. Since 1999, the traditional relationship between macro-economic conditions and consumer bankruptcy resumed, as filings fell to 1,376,077 in 2001 and then steadily rose to 1,493,461 in the aftermath of the 2000 recession. Following the sluggish economic recovery, however, consumer bankruptcies have risen to new record highs of 1,638,804 in 2003 and 1,624,272 in 2004 while unemployed has dipped (U.S. Bankruptcy Courts, 2005). The dramatic increase in consumer bankruptcy rates is underscored when the number of eligible bankruptcy filers per capita is calculated

during this period. Between 1985 and 2004, it soared from less than 200 filings per 100,000 to over 1,000 per 100,000.

Today, we will see the emergency of an increasingly financially fragile group of middle income households with high levels of debt being forced through rising credit card interest rates and aggressive debt collection policies into bankruptcy debt relief programs. At the Center for Consumer Financial Services at the Rochester Institute of Technology, we are currently conducting a pilot “Responsible Debt Relief” project in Texas and California that examines the debt accumulation experiences and ability of what we call the “near bankrupt” families to satisfy a creditor approved, debt payment program (Manning, 2007b). These families could qualify for Chapter 7 bankruptcy relief but would prefer to pay somewhere between $\frac{3}{4}$ to $1\frac{3}{4}$ percent of their current outstanding consumer debt through a lawyer supervised, three-year repayment program that could recover from 20% to 45% of their total, unsecured consumer debts over a three-year period. Significantly, such a program would not entail any creditor litigation/collection expenses and the average return is comparable to the price that major banks resell their Chapter 13 bankruptcy repayment obligations in the secondary market. Although this project has received approval from the Utah state legislature and Governor Huntsman, and a major credit card issuer affirmed that it would return a higher yield to the bank, we have not received an enthusiastic response from the credit card issuing companies. If the realities of this new heavily indebted household are not addressed by the bank/debt collection practices, we will see a domino effect on the forced sale/foreclosure of residential homes and sharp rise in the consumer bankruptcy rate. Furthermore, these “near bankrupt” households that are exposed to sharply rising and capricious credit card pricing policies, may increasingly find that the bankruptcy court is their inevitable destination—not necessarily due to higher debt levels but due to sharply rising credit card interest rates—which will make it even more difficult to make their minimum payments after paying for rising mortgage payments.

A final point concerns the international expansion of the deregulation of consumer financial services and the global growth of the credit card industry. As previously reported in Table 4, the future growth of the credit card industry will occur outside of the United States. This is due to the limits of American household debt capacity as well as the lack of “unbanked” groups that are suitable for marketing consumer credit cards. This has two very important and potentially disastrous consequences for the United States. First,

America's share of consuming global commerce reaching its apex in 2000 and has declined since the end of the U.S. recession. This is due to the enormous aggregate growth of global trade as well as the rising debt service burdens of American households. This means that the future growth of global commerce and trade will occur in a multipolar international economy such as the rise of EU, China, and Latin America (Mann, 2006). America's relative importance to global trade will decline over time as consumer debt service costs rise and household savings rise in preparation for the Baby boomer retirement. This could result in more favorable lending policies to promote trade will emerge to the disadvantage of the United States in other parts of the world (Manning, 2007a).

Second, as shown in Table 11, the aggressive marketing of consumer credit cards together with pressure on state governments to reduce their expenditures on public social-welfare services has led to a sharp decline in the national savings rates of these countries—especially those that enthusiastically embraced free-market/deregulated banking policies. For example, between 1985 and 2005, the household savings rate declined from 15.8% to 1.4% in Canada, from 9.8% to 4.4% in the United Kingdom, from 28.8% to 11.5% in Italy, and from 18.5% to 6.9% in Japan. The notable exception is the strong, cultural resistance to consumer credit and debt in Germany; the savings rate dipped slightly from 12.1% to 10.5%. As a larger share of global commerce is consumed through lower savings rates and borrowed money, it is clear that this will eventually impact global capital markets which can only lead to upward pressure on domestic lending rates—especially with a negative, national savings rate (combined household, public, business). This suggests that America's dependence on cheap energy could be eventually dwarfed by its voracious demand for cheap credit/capital with potentially serious foreign policy consequences. Imagine the impact on the housing market if the Chinese suddenly liquidate their US mortgage bond and currency holdings in retaliation for America's relations with Taiwan. Furthermore, it is unlikely that the United States will be able to continue to enjoy its debt dependent standard of living while encouraging other societies to participate in the international consumer culture that is integral to this phase of America's global economic dominance. At some point, a decline in these national savings rates will require the US to compete through higher interest rates for increasingly scarce loans in the global capital markets. What will be the impact on the U.S. consumer economy that is increasingly sensitive to fluctuations in household borrowing rates?

Assessing the Consumer Lending Revolution:

Rising Tides and Sinking Ships

The distinguishing features of the deregulation of consumer financial services include: (1) the profound shift in bank lending activities from corporate to consumer loans, (2) fundamental transformation of the industry structure (consolidation, conglomeration), dominant institutional form (conglomerate such as Citigroup), and geographic location, (3) profound shift from state to national regulatory system (US Congress, Office of Comptroller of the Currency) with the ascension of Federal Preemption (Manning, 2003(c) Furletti, 2004; Lander, 2004), (4) dramatic increase in the aggregate levels of household debt, (5) sharp increase in the inequality of the cost of unsecured consumer loans such as credit cards (especially in comparison to installment loans), (6) institutional pressure to continue rapid growth of unsecured consumer loans by expanding into new demographic markets such as students, seniors, and the working poor; and (7) the historically unprecedented growth of consumer bankruptcies which has produced a more stringent statutory reform—a trend counter to the rest of the world.

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

For consumers in debt extremis, banking deregulation has produced a plethora of new and recently less costly financial products for middle income families. Yet, it has

come with a price. “Risk-based pricing” policies that enable banks to unilaterally raise the cost of credit/debt for relatively minor changes in credit worthiness, decline of state regulatory power (federal preemption) that means only the US Congress can mandate fairer pricing policies and clearer contract disclosures, imposition of mandatory binding arbitration clauses which seek to preclude class-action lawsuits which may be the only way to force banks to change their unfair policies, anti-competitive practices (against consumers and merchants) that are leading to a new organizational structure of the major credit card associations (MasterCard, Visa) as they become private corporations and limit the liability of their member banks, and a clear lack of regulatory and financial accountability for personal consumer information. Indeed, my recent experience with Citibank highlights the one-sided nature of the pricing system of the credit card industry. In December, my payment was received late for the very first time. Upon contacting the company, I was told that they had decided to raise my “fixed rate” of 3.99% to 32.24% and would not consider lowering my interest rate for five months. I immediately paid off the balance and asked them if they would reconsider the interest rate since there was no longer an outstanding balance and thus had demonstrated my credit worthiness. No, I was informed that they could not consider a review of my account for five months—regardless of the payments that had been received.

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

Tables and Appendix

Table 1

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

Year	Bank Cards²	Percent Increase	Charge Volume³	Percent Increase	Account Balances³	Percent Increase
2005	694.7	5.4%	\$1,618.0	11.4%	\$713.5	3.2%
2004	659.4	7.0%	\$1,451.8	9.9%	\$691.2	4.6%
2003	616.1	1.5%	\$1,305.6	n/a	\$661.0	3.6%
2002	606.9	-18.3 %	\$1,426.4	4.7%	\$640.2	5.4%
2001	743.0	10.0%	\$1,369.3	9.5%	\$605.0	9.3%
2000	675.3	7.9%	\$1,250.4	14.1%	\$554.5	12.6%
1999	626.0	20.4%	\$1,095.7	12.5%	\$491.6	8.8%
1998	519.9	5.4%	\$974.0	9.8%	\$451.6	2.9%

1997	493.3	3.8%	\$887.0	11.1%	\$439.0	7.2%
1996	475.3	7.9%	\$798.1	13.9%	\$409.5	14.2%
1995	440.5	10.2%	\$700.9	20.5%	\$358.6	24.7%
1994	399.9	---	\$581.5	22.4%	\$287.5	23.8%

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

²Millions of universal bank card accounts.

³Billions of annual charges.

⁴Outstanding balances at end of calendar year.

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

Table 2**Growth of Outstanding Consumer Debt in the United States – 1980-2005 (billions of dollars)**

YEAR	Total	Revolving	Non- Revolving	Revolving as a % of Non- Revolving
1980	351.9	55.0	297.0	18.5%
1981	371.3	60.9	310.4	19.6%
1982	389.8	66.4	323.5	20.5%
1983	437.1	79.0	358.0	22.1%
1984	517.3	100.4	416.9	24.1%
1985	599.7	124.5	475.3	26.2%
1986	654.7	141.0	513.7	27.5%
1987	686.3	160.9	525.5	30.6%
1988	731.9	184.6	547.3	33.7%
1989	794.6	211.2	583.3	36.2%
1990	808.2	238.6	569.6	41.9%
1991	798.0	263.8	534.3	49.4%
1992	806.1	278.5	527.7	52.8%
1993	865.7	309.9	555.7	55.8%
1994	997.1	365.6	631.6	57.9%
1995	1,141.0	443.5	697.5	63.6%
1996	1,242.9	499.6	743.2	67.2%
1997	1,320.1	536.7	783.4	68.5%
1998	1,417.3	578.0	839.3	68.9%
1999	1,530.4	606.8	923.6	65.7%
2000	1,707.4	678.5	1,028.8	65.9%
2001	1,838.8	716.6	1,122.2	63.9%
2002	1,925.5	736.4	1,189.2	62.0%
2003	2,015.3	758.3	1,257.1	60.7%
2004	2,110.0	793.5	1,316.6	58.8%
2005	2,295.6	826.6	1,469.0	56.4%
2006	2,389.7	872.6	1,517.0	57.5%

Table 3

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

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

¹Bank of America acquired MBNA in 2005

Table 4**Bank-Issued Consumer Credit Cards, U.S. and Worldwide: 1996-2005****(Number of cards, in millions)**

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

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

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

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

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

Table 5

Bank Card Profitability, 2005 and 2004

(\$ figures in billions)

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

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

Source: Card Industry Directory, 2006

Table 6**Real Family Income Growth by Income Quintiles, 1995-2004****(decomposed)**

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

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

Table 7

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

	As share of disposable personal income				As share of assets¹	
	<i>All Debt</i>	<i>Mortgage</i>	<i>Home Equity Loans²</i>	<i>Consumer Credit</i>	<i>All Debt</i>	<i>Mortgage</i>
1949	32.9%	19.6%	n.a.	10.2%	6.1%	15.0%
1967	69.1	42.5	n.a.	18.8	12.0	30.8
1973	66.9	39.6	n.a.	19.7	12.6	26.3
1979	73.2	46.1	n.a.	19.5	13.7	27.5
1989	86.4	57.1	n.a.	19.8	14.8	31.4
1995	94.3	62.4	6.2%	20.7	15.8	40.2
2000	106.8	70.3	9.2	22.7	15.4	40.2
2003	114.5	85.0	10.9	24.0	18.3	44.1
2005	131.8	95.8	11.6	24.2	18.6	40.1
Annual percentage point change						
1949-59	2.8	1.9	n.a.	0.7	0.4	1.0
1959-73	0.4	0.0	n.a.	0.2	0.2	0.1
1973-79	1.1	1.1	n.a.	0.0	0.2	0.2
1979-89	1.3	1.2	n.a.	-0.1	0.2	0.6
1989-00	1.4	0.7	0.0	0.4	0.0	0.4
2000-05	5.9	5.9	0.8	0.0	0.7	0.5

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

²Data for 1989 refer to 1990.

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

Table 8**Share of Households with Delinquent Bills by Income Percentile*, 1989-2004**

Percentile of Household Income	1989	1992	1995	1998	2001	2004	Percentage-point change	
							1989-2004	2001-04
Top Fifth								
91% - 100%	2.4%	1.0%	1.0%	1.6%	1.3%	0.3%	-2.1	-1.0
81% - 90%	1.1%	1.8%	2.8%	3.9%	2.6%	2.3%	1.2	-0.3
Bottom Four-Fifths								
61% - 80%	5.9%	4.4%	6.6%	5.9%	4.0%	7.1%	1.2	3.1
41% - 60%	5.0%	6.9%	8.7%	10.0%	7.9%	10.4%	5.4	2.5
21% - 40%	12.2%	9.3%	10.1%	12.3%	11.7%	13.8%	1.6	2.1
Lowest 20%	18.2%	11.0%	10.2%	12.9%	13.4%	15.9%	-2.3	2.5
Average	7.3%	6.0%	7.1%	8.1%	7.0%	8.9%	1.6	1.9
*60 or more days late								

B. Wolff (2006), cited in Laurence Mishel, Jared Bernstein and Sylvia Allegretto, The State of Working America, (ILR Press), p. 275.

Table 9**Household Debt Service as a Share of Household Income, by Income Percentile,****1989 - 2004**

Household Income	1989	1992	1995	1998	2001	2004	Percentage-point change	
							1989-2004	2001-04
Top Fifth								
Top 10%	8.70%	11.40%	9.50%	10.30%	8.10%	9.30%	0.6	1.2
Next 10%	15.7%	15.5%	16.6%	16.8%	1.0%	17.3%	1.6	0.3
Bottom four-fifths								
Fourth	16.9%	16.7%	17.9%	19.1%	16.8%	18.5%	1.6	1.7
Middle	16.3%	16.1%	15.6%	18.6%	17.1%	19.4%	3.1	2.3
Second	13.0%	15.8%	17.0%	16.5%	15.8%	16.7%	3.7	0.9
Lowest	14.1%	16.4%	19.1%	18.7%	16.1%	18.2%	4.1	2.1
Average	12.9%	14.4%	14.1%	14.9%	12.9%	14.4%	1.5	1.5

B. Wolff (2006), cited in Laurence Mishel, Jared Bernstein and Sylvia Allegretto, *The State of Working America*, (ILR Press, p. 274.

Table 10**Household Assets and Liabilities by Wealth Class in the United States****1962-2004 (thousands of 2004 dollars)**

Assets & Liabilities	Top 1.0%	Top 9.0%	Next 10%	Next 20%	Middle 20%	Bottom 40%	Average
Stocks¹							
1962	\$2,617.4	\$133.9	\$14.9	\$4.8	\$1.2	\$0.3	\$41.6
1983	1699.5	109.7	13.1	5.0	1.7	0.4	30.1
1989	1,282.8	141.0	27.6	9.7	4.0	0.7	31.7
1998	2,743.7	316.7	86.4	29.9	10.0	1.8	78.0
2001	3,568.4	512.3	131.9	41.3	12.0	1.8	106.3
2004	3,276.5	413.4	105.6	31.3	7.5	1.4	89.0
All other assets							
1962	\$2,847.4	\$491.6	\$233.6	\$129.9	\$70.3	\$16.7	\$142.0
1983	6,540.8	849.0	343.2	176.6	86.9	18.3	235.8
1989	9,090.9	933.3	368.9	201.5	96.8	21.0	279.3
1998	8,649.8	897.7	360.0	196.8	106.0	25.9	267.3
2001	9,449.5	1,221.1	438.4	234.6	113.5	26.6	328.3
2004	12,060.6	1,524.7	573.7	305.8	148.4	35.2	420.5
Total debt							
1962	\$193.3	\$37.8	\$28.0	\$29.0	\$28.7	\$16.1	\$25.9
1983	444.5	74.0	53.5	36.4	28.3	13.6	34.9
1989	484.7	98.7	53.3	48.2	37.0	26.1	46.3
1998	307.1	114.0	71.7	51.5	49.7	26.5	51.7
2001	325.8	122.3	79.9	60.5	50.5	25.5	54.5
2004	566.8	174.2	103.8	93.8	74.1	34.4	79.1
Net Worth							
1962	\$4,271.5	\$587.7	\$220.4	\$105.7	\$42.8	\$0.9	\$157.7
1983	7,795.8	884.7	302.8	145.2	60.3	5.1	231.0
1989	9,889.0	975.6	343.2	163.0	63.9	-4.4	264.6
1998	11,086.4	1,100.3	374.7	175.3	66.3	1.2	293.6
2001	12,692.1	1,611.0	490.3	215.3	75.0	2.9	380.1
2004	14,770.4	1,764.0	576.3	243.4	81.8	2.2	430.5

¹All direct and indirect stock holdings.

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

Table 11

Global Trade, Balance of Trade, Current Accounts and Household Savings Rates by Selected

Countries: 1985-2005

	1985	1990	1995	2000	2001	2002	2003	2004	2005¹
Canada									
Share of Global Imports ²	3.8%	3.3%	3.1%	3.6%	3.4%	3.3%	3.2%	3.2%	3.2%
Balance of Trade ³	11.9	9.5	25.8	41.8	41.4	34.5	41.3	44.6	43.4
Current Account ⁴	-1.6	-4	-0.8	2.6	2.8	1.5	2.0	2.2	2.3
Household Saving Rate ⁵	15.8	13.0	9.2	4.8	4.6	5.3	5.3	5.7	1.4
Germany									
Share of Global Imports ²	8.4%	10.0%	9.0%	7.7%	7.9%	7.6%	7.9%	7.7%	7.7%
Balance of Trade ³	28.3	68.4	65.1	58.4	90.7	123.3	139.8	149.5	193.6
Current Account ⁴	2.8	3.2	-0.8	-1.1	0.2	2.5	2.9	3.2	3.8
Household Saving Rate ⁵	12.1	13.9	11.2	9.8	10.1	10.4	10.1	10.2	10.5
Italy									
Share of Global Imports ²	4.4%	4.9%	3.8%	3.4%	3.5%	3.5%	3.6%	3.5%	3.5%
Balance of Trade ³	-5.4	-1.8	38.7	9.6	15.9	17.1	21.1	23.5	-1.9
Current Account ⁴	-1.0	-1.5	2.3	-0.5	0.0	-0.5	-0.1	0.0	-0.9
Household Saving Rate ⁵	28.8	25.9	20.0	12.3	13.2	15.8	16.3	16.1	11.5
United Kingdom									
Share of Global Imports ²	5.7%	6.5%	5.2%	5.3%	5.3%	5.3%	5.1%	5.1%	5.1%
Balance of Trade ³	-4.2	-32.8	-19.0	-45.9	-48.2	-52.0	-65.9	-74.1	113.1
Current Account ⁴	0.1	-4.0	-1.3	-2.0	-1.3	-0.8	-1.4	-2.0	-2.0
Household Saving Rate ⁵	9.8	8.0	10.0	4.2	6.1	5.1	5.4	6.0	4.4
Japan									
Share of Global Imports ²	6.1%	6.3%	5.9%	5.4%	5.1%	4.8%	4.7%	4.5%	4.5%
Balance of Trade ³	54.9	69.2	132.1	116.6	70.3	93.8	105.8	131.2	110.5
Current Account ⁴	3.7	1.5	2.1	2.5	2.1	2.8	3.1	3.9	3.7
Household Saving Rate ⁵	18.5	13.1	10.8	9.1	6.5	5.9	6.9	7.1	6.9
United States									
Share of Global Import	18.3%	15.3%	15.2%	19.7	19.2%	18.9%	18.4	15.2	15.2
Balance of Trade ³	-122.2	-111.0	-174.2	-452.	-427.2	-484.4	-562.	-620.	-707.
Current Account ⁴	-2.8	-1.4	-1.4	4.2	-3.9	-4.8	-5.4	-5.5	-5.7
Household Saving Rate ^{5,6}	9.2	7.8	5.6	2.8	2.3	3.7	2.1	0.9	0.4

¹ Organization for Economic Cooperation and Development (OECD) projections.

² Reported as a Percentage of Country's Share of Total Global Imports.

³ Reported in Billions of US Dollars.

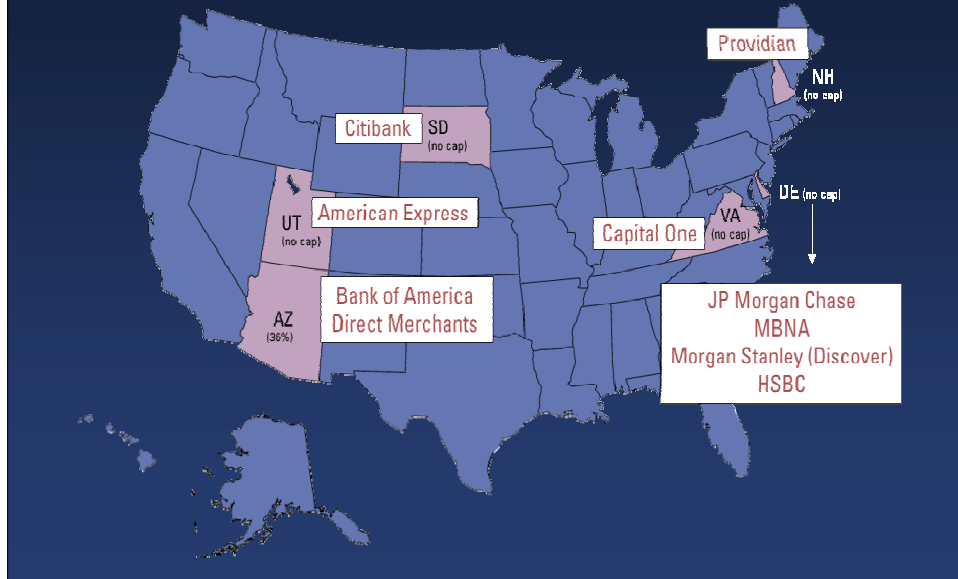
⁴ Reported as a Percentage of Country's Gross Domestic Product (GDP)

⁵ Reported as a Percentage of Country's Disposable Household Income.

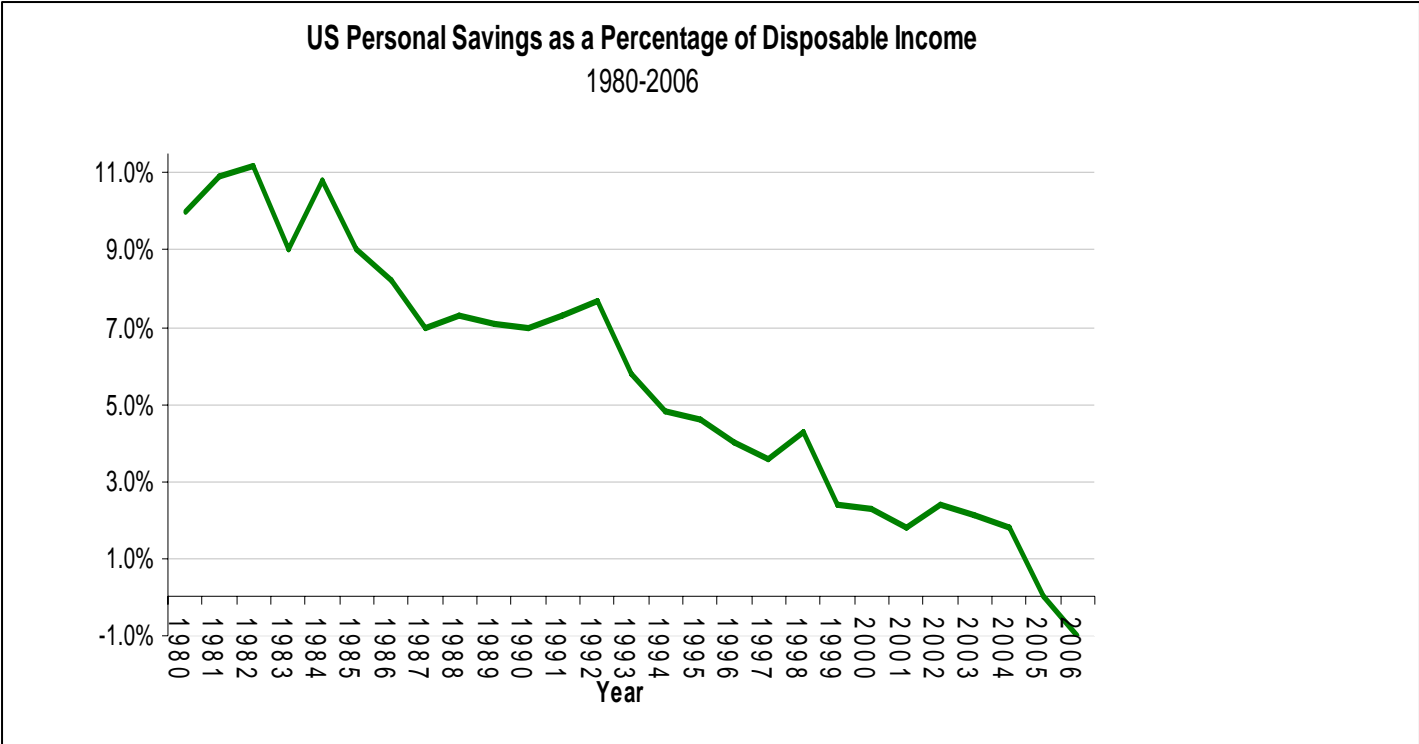
⁶ Reported by U.S. Bureau of Economic Analysis, 2006.

Credit Card Interest Rate Ceilings

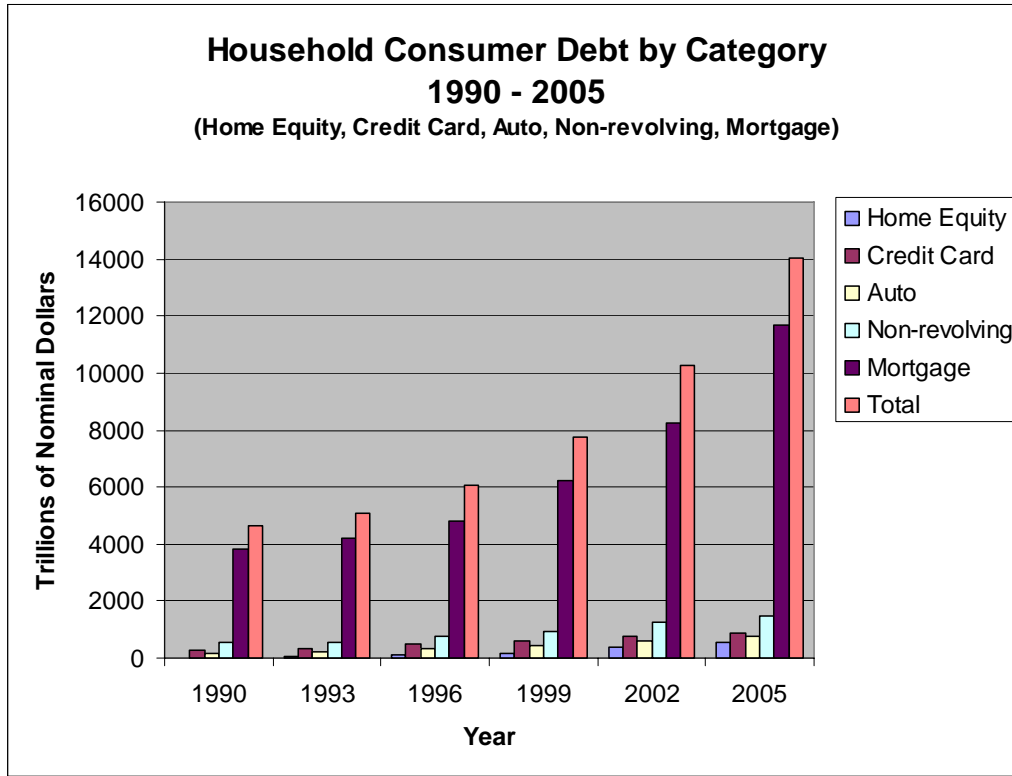
State Charter of Major Bank Issuers



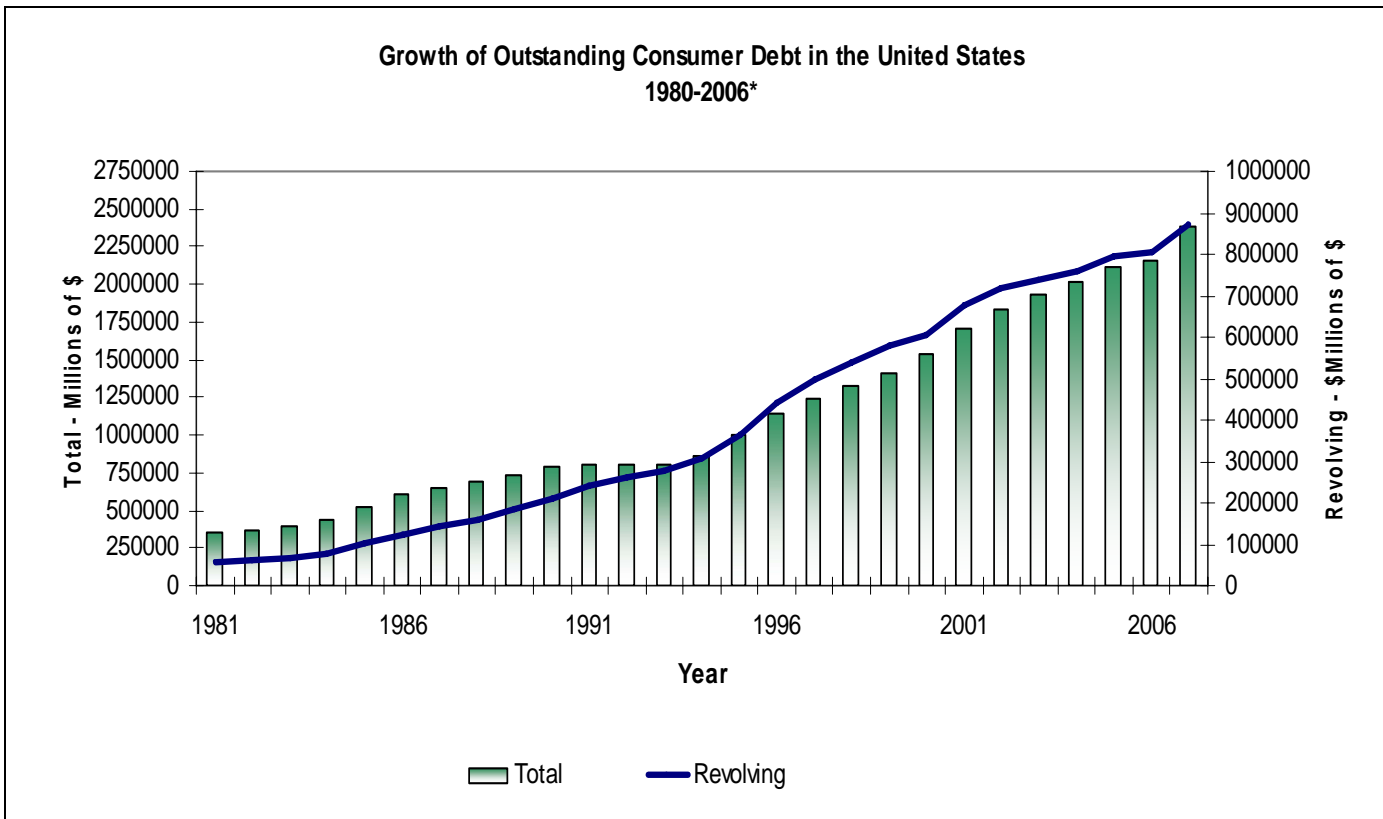
U.S. Personal Savings as a Percentage of Disposable Income



Appendix C

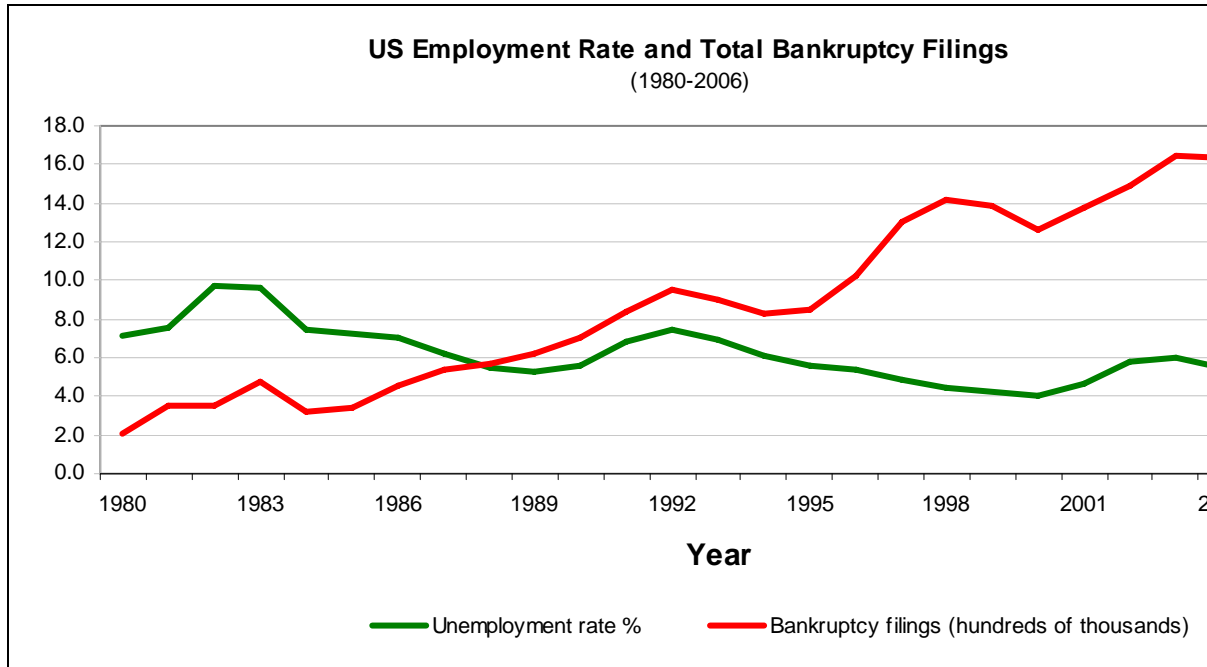


Appendix D



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

Appendix E



Appendix F

CITIBANK's Risk Based Pricing:

**From 3.9% Fixed 'For Life' to 32.24% After Only One Late Payment
(Retroactive Increase in Finance Rate on Existing Account Balance)**

October 2006 Statement

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

Rate Summary	Balance Subject to Finance Charge	Periodic Rate	Nominal APR	ANNUAL PERCENTAGE RATE
PURCHASES				
Standard Purch	\$0.00	0.03901%(D)	14.240%	14.240%
Offer 4	\$10,666.10	0.01091%(D)	3.990%	3.990%
ADVANCES				
Standard Adv	\$0.00	0.06167%(D)	23.240%	23.240%

Days This Billing Period: 30

SEND PAYMENTS TO: CITI CARDS PC BOX 103064 COLUMBUS, OH 43210-3064 195275
PLEASE FOLLOW PAYMENT INSTRUCTIONS ON REVERSE SIDE. PAYMENT MUST BE RECEIVED BY 5:00 PM LOCAL TIME ON 10/16/2006

www.citicards.com

citi

Your Account Number
15424180353377408999999158005815

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

Please Enter Amount Of Payment Enclosed:

195205 MC 00 A 1 8806C0325

ROBERT D MANNING
NY 14534-3101

CITI CARDS
PC BOX 103064
COLUMBUS, OH 43218-3064

Non Home Phone: _____ Non Business Phone: _____

* If you provide an email address, we may use it to contact you about your account. We only use the card you send with us to send you the mail. Mail is sent to you through our postal network.

December 2006 Statement

NNNN NNNN NNNN NNYN
214012540095210002

Citi® Diamond Preferred® Card



How to Reach Us
1-800-633-7367
Customer Service
BOX 6500
SIOUX FALLS, SD 57117

Access your account online: [citi](http://citi.com)

Rate Summary		Days This Billing Period: 29			
	Balance Subject to Finance Charge	Periodic Rate	Nominal APR	ANNUAL PERCENTAGE RATE	
PURCHASES					
Standard Purch	0.00	0.08833% (D)	32.240%	32.240%	
Offer 4	10,402.15	0.08833% (D)	32.240%	32.240%	
ADVANCES					
Standard Adv	0.00	0.08833% (D)	32.240%	32.240%	

News from Citi

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



Access your account online: citicards.com

Account Member
ROBERT D MANNING

Account Number

How to Reach Us
1-800-633-7367

Customer Service
BOX 6500
SIOUX FALLS, SD
57117



At a Glance					
Previous Balance	Amount Over Credit Line	Past Due	Finance Charges	Total New Balance	
\$10,274.08	\$0.00	\$154.00	\$266.46	\$10,579.54	
Standard Purchases					
Sale	Post	Description	Amount		
	12/20	LATE FEE - NOV PAYMENT PAST DUE	39.00		
Balance Transfer - Charged To Offer 4					
Sale	Post	Description	Amount		
	12/20	PURCHASES*FINANCE CHARGE*PERIODIC RATE	265.46		
Categorized Purchase Activity					
Air Travel	Auto Rental	Entertainment	Health Care	Lodging	Merchandise
0.00	0.00	0.00	0.00	0.00	0.00

Time this
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