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Good morning, Chairman Shelby and good morning distinguished members of the committee. My name is Louie Freeh and I am here today as General Counsel of MBNA Corporation. Thank you for this opportunity to address the committee and to share with you some observations about how the American credit card industry, and MBNA in particular, is working to ensure broad availability of credit, at a fair price in a secure environment.

MBNA is an international financial services company and the third largest issuer of credit cards in the United States. Our primary business is making unsecured loans through credit cards, consumer loans, business credit cards, and other lending products. MBNA is best known for partnering with thousands of professional organizations, colleges and universities, conservation groups, and others to deliver financial products through affinity marketing programs. Under these programs, millions of customers express their affinity with their alma mater or profession, and more than 5,000 organizations benefit by sharing in the proceeds generated when customers use an MBNA credit card. MBNA products and services are endorsed by organizations like the National Education Association, Georgetown University, and Ducks Unlimited.

MBNA began business more than 20 years ago with about 100 people in an abandoned grocery store in a rundown shopping center in Ogletown, Delaware. Today, MBNA is a Fortune 100 company that employs more than 27,000 people in Delaware, Maryland, Maine, Ohio, Georgia, New Jersey, New York, Pennsylvania, and Texas, as well as in Canada, the United Kingdom, Ireland, and Spain. MBNA appears perennially on several national lists as among the top 100 places to work in America. Our success has been built on an enduring commitment to provide customers top quality financial products, backed by world-class service. That commitment is best expressed by the words, “Think of Yourself As A Customer,” which appear above *every* door in the company.

At MBNA, we use sophisticated software models to help make credit decisions, but we also rely on the analysis and judgment of highly experienced credit analysts. By making what we believe to be more informed credit decisions, MBNA has built one of the highest performing loan portfolios in the credit card business. Our loan losses are significantly lower than the industry average and most of our customers make more than their minimum payment every month. We also take pride in the fact that we treat every customer as an individual, and we make decisions based on an analysis of that individual’s credit worthiness as it evolves over time.

In the larger sense, MBNA is a major participant in an industry that is a vital part of the American economy. Credit cards are so ubiquitous that it is easy to forget a time not so long ago when access to credit was a privilege reserved for the elite. Some of you will recall a time when, if you wanted a $300 personal loan, it meant filling out an application, signing countless documents, waiting for your approval and, if the approval came, submitting to a lecture from the bank officer before receiving your check and a book of payment coupons. Today, sophisticated processes allow you to get this done at an ATM.

The availability of reliable credit information, strong regulatory protections, and the willingness of companies like MBNA to take reasonable credit risks have greatly broadened the availability of credit for the average American. This capital has helped fuel the growth of our economy and the strength of our nation. The fact is, our society would not function as it does without reasonable access to credit through credit cards.

Yet for all this progress, today's credit card loan is very much like the personal loan you may have waited several weeks to receive 20 years ago. It's an unsecured loan that the lender grants based largely on the customer's promise to repay. For example, when a customer uses a credit card to pay for an airline ticket, he is taking out an unsecured loan.

But the credit card loan is different from the old personal loan in several important ways. If the credit card customer needs additional funds or is unable to repay the loan immediately, the lender has agreed in advance to allow the customer to revolve a balance on the loan, re-paying a portion each month and avoiding the need to apply for a new loan. So if the airline ticket delivers our customer to Hong Kong, the credit card lender will make funds available in the local currency. If there's a problem, the lender will be available 24 hours a day, seven days a week to ensure that the customer is satisfied. And if the customer's card is lost or stolen, the lender will replace the card so that the customer may return home. And the lender then bears the cost of any fraudulent use of the card. It's really a remarkable product.

Most of us don't think about the investment in people, technology, and products required to make this kind of product and service available wherever and whenever a consumer wants credit. The world of the old personal loan seems a distant memory. It's as if credit cards have always been there, and always will be. In fact, the system relies on the integrity of both parties to live up to their commitments. And the good news is, the system is working very well.

The vast majority of lenders grant credit responsibly, and the vast majority of consumers use credit cards responsibly. The result is, nearly every American today enjoys access to a reasonably priced source of capital to realize their dreams. Credit is no longer the province of the wealthy. Credit is now a reasonably priced financial tool available to nearly every American. MBNA is proud to have played a role in this progress.

There are, of course, always exceptions. Some consumers mis-handle credit cards, and lenders can always do more to improve the ways in which they grant and manage credit. But we must not make the mistake today of focusing solely on the exceptions. As we examine some of the industry's practices, we must balance our concern for appropriate safeguards with an interest in preserving access to credit for the majority of Americans who use it responsibly.

Within this context, let me turn now for a few moments to some topics the committee is concerned with. I have some observations on the marketing of credit cards to college students, the practice of re-pricing existing accounts and assessing fees, minimum payments, concerns about disclosures, and data security.

Student Marketing

In discussing student marketing, it is important to note that we make every effort to ensure that credit card offers are not sent to people under the age of 18.

MBNA does promote its products to college-aged customers by partnering with more than 700 colleges and universities, primarily through the college alumni associations. By working closely with school administrators, we have earned the confidence and trust of most of America's premier educational institutions.

When we market on campus, we sometimes participate in school events such as football games and orientation activities. These activities are conducted within the framework of a multi-year agreement that gives the school extraordinary control over when, where, and how we are allowed to market our products, especially to students. And while we *do* issue credit cards to some college students, you may be surprised to learn that more than 90% of the credit cards we issue through colleges and universities go to the alumni, parents and staff, not students. Alumni groups typically use the funds generated to underwrite academic and athletic enrichment programs.

Before granting credit to a college student, analysts familiar with the needs and abilities of college students review each application and decline more than half. Our experience is that most college student applicants report a separate income, and that many already have an established credit history. When evaluating an application, we consider the college students' projected performance as an alumnus, and when we grant credit, we typically assign a line of between $500 and $1,000. If a college student attempts to use his or her card beyond the credit line, we typically refuse the charge. And we do not re-price these accounts based on behavior.

Once a college student becomes a cardholder, MBNA delivers its "Good Credit, Great Future" brochure in a Welcome Package. The brochure highlights sound money management habits, including guidance on how to handle a credit card responsibly. We also maintain a web site aimed at college-aged consumers, highlighting many of the same tips. MBNA also conducts on-campus credit education seminars and we provide articles concerning responsible credit use for student and parent publications.

The performance of our college student portfolio mirrors closely that of the national experience, as reported in GAO reports and several independent studies. However, our accounts have much smaller credit limits and much smaller balances than the norm, our college student customers utilize their cards less often than the norm, and these accounts are less likely to incur fees. Our experience has also been that college students are no more likely to mis-handle their accounts than any other group of customers.

When we grant a card to a college student, we think of it as the beginning of what we hope will be a long relationship. As he or she begins a career, purchases a home and raises a family, MBNA wants to be the lender of choice. Given this, we have absolutely no interest in encouraging poor credit habits. In fact, everyone's interest is best served when college students make responsible use of credit. That is our goal in every situation, and certainly when dealing with college-aged customers.

We also appreciate that Congress has mandated a study concerning credit and college students. We believe this study will bear out what our experience has indicated and will provide a sound, analytical basis for determining whether or not additional legislation is necessary.

Re-Pricing and Fees

One topic often discussed is how credit card lenders price--and sometimes re-price--their products. It's not unusual to hear someone say that the prime rate is X, that home mortgages are generally priced close to that number, and that credit cards should be too. Of course this line of thinking ignores the fact that no consumer loan could have greater security than a mortgage, which is secured against real property, while few loans could have *less* security than a credit card.

MBNA has some 50 million customers. During any given month, 30 percent of our customers revolve a balance and pay us interest for the use of that money, another 10 percent pay in full without interest, and 60 percent have no balance and don't use their card that month. Before we lend money to customers, MBNA must itself borrow funds. We must then pay the marketing costs to attract customers and the operations costs to service their business. We must also cover the expense of providing rewards points to customers, compensating our affinity partners, protecting our customers from fraudulent transactions, and funding those loans that are charged off because they will never be re-paid. And like any business, we must pay salaries, benefits, facilities expenses, and taxes. The fact is, before we return a profit to shareholders, we must earn significantly more than our cost of funds just to cover our cost of business. And this is in an environment where customers have come to expect no annual fee, generous rewards points, complete protection from fraud, 24-hour global service, and a 0% APR.

We manage to this environment by using our affinity model to differentiate our products, by focusing on providing outstanding products and services, by giving potential customers every good reason to join MBNA, by maintaining the flexibility to price our products to reflect the changes in the risk profiles of our customers, and by applying fees when customers decide to handle their accounts outside the agreed terms. Our over-riding objective is to ensure the integrity of the portfolio so that we can continue providing the greatest amount of credit to the greatest number of qualified customers at the most competitive rates. I think this goal is entirely consistent with the committee's fundamental concerns for the American consumer.

When we increase a customer's APR, we do so for one of two reasons: either our costs have increased, or the customer's creditworthiness indicates a higher risk than is supported by the current pricing. However, MBNA does not practice universal default. We do not automatically re-price a customer's account without notice solely because he or she may have missed or been late on a payment to some other creditor.

The reality is, every lender must have the ability to set and, if necessary, adjust the pricing on an unsecured revolving loan in order to reflect the risk inherent in making that loan. Likewise, if a customer chooses to pay late, exceed his credit limit, or otherwise handle his account outside the agreed terms, it is not unreasonable that we would assess a fee to help cover the added risk that this poses. Without this flexibility, some lenders would simply raise their rates, forcing all customers to pay a higher rate in order to subsidize those who present increased risks, others would limit credit access to all but the most affluent, and some would just find new lines of business.

At MBNA, we work to balance all of these factors and to price our products in a way that allows us to attract and retain the best customers, while also achieving our financial goals.

Absent a default on that specific account, MBNA provides advance notice to customers when we re-price an account, and we allow customers to reject a rate increase and to pay the balance at the old rate.

Minimum Payments

I want to turn now to the subject of minimum payments. Providing customers with the flexibility of making a low minimum payment is one of the terrific features of a credit card. For customers whose incomes may fluctuate over the course of the year, the option of a low minimum payment can be a flexible tool for managing the monthly budget.

Our experience, however, is that nearly all of MBNA's customers pay more than their minimum each month and only a fraction of one percent of consistently pay only the minimum. In fact, many of our customers pay their balance in full each month.

While the minimum payment is meant as a tool or a guideline for consumers, we recognize that some customers fall into the habit of repeatedly making the minimum payment. When this happens, a consumer can begin having problems making a dent in the principle owed. MBNA identifies those customers whose poor payment practices indicate financial stress. We reach out to these customers and work with them to develop payment strategies that suit their circumstances.

MBNA has also announced that it will begin applying a new minimum monthly payment formula later this year. For most customers who revolve a balance and currently pay the minimum, the new formula will encourage them to pay down a larger portion of principle each month. We continue to work with the OCC and all of the banking regulatory agencies as they work to improve the effectiveness and efficiency of the system.

Disclosures/Transparency

Turning for a moment to the topic of disclosure, let me first say that MBNA is committed to keeping its customers fully and fairly informed of every aspect of their accounts. However, we believe that the volume and types of disclosures mandated by federal and state laws, regulations, guidelines, and practices, along with the complexity of the product, have not led to greater clarity. In fact, we think these measures have often led to greater confusion and frustration for the consumer. And while we favor better disclosure, we should consider that better disclosure may not mean more disclosure. Better disclosure may mean simpler descriptions of key terms and offering consumers a range of ways to get this information, including web sites, toll-free phone numbers, and simplified documents.

At MBNA, we always provide advance notice of changes in APRs and we tell customers how to opt-out of these changes. Moreover, in response to the OCC's September 2004 Advisory Letter regarding credit card marketing practices, MBNA made a number of improvements in its marketing materials and agreements. Our goal was to highlight important terms and conditions relating to fees, rates, payment allocation, re-pricing, and how to opt-out of changes in terms. In addition, we recently provided comment to the Board of Governors of the Federal Reserve System wherein we support the Board's decision to undertake a comprehensive review of the federal Truth In Lending Act and Regulation Z. We believe this review is necessary because consumer credit markets and communications technology have changed significantly since the act was last revised in 1980. We have further suggested that the Board be guided by four fundamental principles as it considers revisions to the act.

First, disclosures must be simple. We know from talking to millions of customers every year that they are often confused and frustrated by the dense and lengthy regulatory language that issuers are required to use in disclosures. Ironically, the language intended to inform consumers more often overwhelms them. Much of this material ends up in the household trash. We believe it should be a priority for the Board to shorten and simplify disclosure language and to focus on the most relevant terms and conditions that consumers need to understand.

Second, disclosures must be clear. There are several consumer-tested models for presenting complex information in a clear and effective manner. We recommend that in addition to containing shorter, simplified language, disclosures should also be presented in ways that are understandable and meaningful. Lenders should have the option of using these consumer-friendly models as a "safe harbor" for disclosure.

In respect of the need to present information simply, clearly, and effectively, MBNA has begun voluntarily inserting its change-in-terms notices within what we call a "wrapper." The wrapper presents a top line summary of the changes in terms, along with hints to customers for managing their accounts. We also use the wrapper to remind customers of the things they can do to avoid fees, and we make suggestions on how to manage payments by mail, by phone, and by Internet. The wrapper is a step in the direction of clarity, and we're happy to have taken it.

Our third recommendation is that *disclosures should be based on uniform national standards*. The goal of greater simplicity and clarity will never be achieved as long as individual states can impose their own disclosure requirements. We do not believe that state-specific disclosures provide any significant benefits, but we know they add to the complexity of documents that customers tell us are already far too difficult.

And fourth, *disclosures should not be repetitive*. Key terms should not have to be disclosed in the account application *and* in the summary of terms disclosed later.

Our idea is that the Fed Box can be improved. Similar to the "nutritional facts' table on the side of all food products, issuers would disclose the key terms of the credit card agreement in a uniform way. The table could include a listing of the rates that apply to the different types of transactions, information on whether the rates are variable or non-variable, fees, grace periods, default provisions, conditions for re-pricing, duration of promotional rates, and so on. The major improvement is that this information would be presented in a consistent, uniform manner. Consumers could compare product features and benefits, and more easily choose those products that suit their needs, whether they want to revolve a balance or not.

In 2003, MBNA tested a "food label-style" privacy statement with a small segment of customers. More than 90% told us they preferred the simplified format. The study confirmed that transparency in disclosures is in MBNA's best interest, and of course the best interest of consumers. MBNA will work closely with the Board, and all the appropriate agencies, to contribute to the revision process and to implement the revised requirements.

<u>Data Security/Identity Theft</u>

Several recent high-profile identity theft incidents underscore the importance of data security. Before I address how MBNA manages this risk, it should be said that while credit card information often *is* the commodity that identity thieves want, they don't usually get it from the credit card companies. Typically, they steal this data from merchant computers, where some retailers retain customer account information despite industry rules to the contrary. Often it's the credit card issuer that identifies a pattern of theft, and since the issuer bears the financial burden when a card is used fraudulently, it's not surprising that lenders are focused on curbing this problem.

At MBNA, we monitor account activity around the clock in an effort to prevent fraud. To do this, we apply a unique blend of technology and human judgment. Some of our most experienced analysts work in our Fraud Prevention unit. These people bring years of experience to their assignments and understand the patterns of behavior to look for when identifying fraud. They know also that not everything that looks like it *might* be fraud actually *is* fraud. That's an important skill as well, when one goal is to ensure that customers are not denied the legitimate use of their card.

Fraud prevention starts when we review applications. Our system of judgmental lending gives us an edge in this respect, since we stress the need for direct contact with applicants—especially if we think there is any discrepancy on the application that might suggest fraud.

When customers are using their cards, MBNA employs neural network and rules-based fraud strategies to identify high fraud-risk transactions. If we think we see an issue, we act quickly to mitigate fraud risk by declining transactions and/or seeking point-of-sale customer identification.

But these are just a few examples of how we act to prevent fraud and identity theft. In all, we will spend over $100 million this year alone preventing and responding to fraud. Over the last five years, we have invested additional millions of capital to upgrade our systems to meet this growing challenge. One result of all these efforts is that credit card losses due to fraud, measured as a percent of sales, are now at historic lows.

Finally on this topic, I want to address the question of customer notification. We support the standards recently adopted by the federal banking agencies. We believe that lenders must have the flexibility of being able to assess whether or not the circumstances of the breach pose a genuine risk. Establishing a default requirement where each and every breach of sensitive information triggers an all-out customer notification, as some have suggested, will result in a flood of notifications, nearly all of which will be unnecessarily alarmist. Consumers will quickly learn to ignore these notices and will become complacent, even in those instances when the threat is genuine. What we should strive for is a standard that calls for notification when the threat is real.

Chairman Shelby and members of the committee, this concludes my prepared remarks. I would again like to thank you for the opportunity to address some of these important topics and I look forward to responding to any questions you may have.