Testimony

of

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on

"Examining the Current Legal and Regulatory Requirements and Industry Practices for Credit Card Issuers With Respect to Consumer Disclosures and Marketing Efforts"

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Good morning, Chairman Shelby, Ranking Member Sarbanes, and Members of the Senate Banking Committee. My name is Antony Jenkins and I am an Executive Vice President at Citi Cards. I appreciate the opportunity to speak before you today to discuss the credit card industry, Citi Cards, and our customer relationships. Our customers are our most valuable asset and we constantly monitor customer satisfaction and loyalty to make sure we are serving their evolving needs.

I. Overview of Citi Cards

"Citi Cards" is the brand that Citigroup uses to identify our MasterCard, Visa, and private label credit card business in the United States and Canada. In my testimony today, I generally will be focusing on our MasterCard and Visa business in the U.S.

Citi Cards is one of the leading providers of credit cards in the U.S. with close to 80 million customers and 119 million accounts. Consumers spend roughly $229 billion annually through our credit cards, which constitutes about two percent of the nation's Gross Domestic Product (GDP). Citi Cards employs nearly 35,000 people in 30 geographic locations around the country.

We offer a variety of products and services to meet consumers' diverse needs and preferences. These include a wide array of general-purpose cards where customers can earn rewards or receive cash back. Our rewards programs offer consumers a range of options, including airline miles, gift certificates to major retail stores and restaurants, and electronics. Examples include the Citi AAdvantage card, the longest running airline rewards program in the marketplace today, and our new ThankYou Network rewards program that offers consumers a broad selection of rewards for their everyday purchases.

II. The Credit Card Industry

A. The Benefits of Credit Cards to Consumers and the Economy

Consumer spending is a key component of the U.S. economy, accounting for a significant portion of the nation's GDP. The credit card industry facilitates 17 percent of all consumer spending, or the equivalent of $1.7 trillion. Consumers' use of credit cards is instrumental to businesses of every size. The use of electronic credit card payment systems for a significant portion of all store purchases speeds and organizes payments to merchants throughout the country.

Credit cards have become an integral part of the everyday lives of consumers, and strong competition in the credit card industry has given consumers lower interest rates, enhanced services, and a wide variety of choices.

Credit cards are the payment method of choice for many consumers. They are also the primary means to purchase goods and services through e-commerce in the United States and around the globe. Eighty percent of U.S. households have credit cards, and consumers often choose to carry more than one card for the flexibility and choice that comes with differing card features and rewards.

Credit cards provide consumers with a fast and efficient means of payment for many types of purchases. They are secure, convenient, and easy to use. They allow consumers to purchase airline tickets, rent cars, make hotel reservations, and shop on the Internet from the comfort of their homes and offices. Credit cards are also instrumental in establishing a credit history, which plays an essential role in a consumer's ability to make large purchases such as a home or automobile, get a job, or even open a bank account.

Credit cards offer customers the flexibility to adjust their monthly payments to reflect their preferences and monthly cash flow situation. Some customers choose to pay their cards off in full each month, basically using their cards exclusively as a convenient way to make purchases and pay their bills. Other customers choose to revolve their credit and adjust the amount they pay each month according to their monthly household budgets. Most Citi Cards customers make their credit card payments on time. The vast majority of our customers pay more than the minimum due.

Credit cards provide unique protection features and services not found in other forms of payment. In our case, we believe protecting our customers is fundamental to our business. All of our cards provide security features against fraud and identity theft. Citi Cards and most other issuers also have zero liability policies for unauthorized charges on a customer's card to supplement the already strong protections of current law against liability for unauthorized charges.

B. Credit Card Industry Lending Model

The lending model for credit cards is unique. The loans we provide are unsecured and open-ended, and there are significant operational, funding, and other costs associated with maintaining the infrastructure that allows consumers to use credit cards anywhere, at any time. There are many elements that determine the level of profitability for a company, and well-run companies make profits because of careful management of the risks involved.

C. Legal and Regulatory Framework

The credit card industry is heavily regulated.[1] The bulk of these regulations were put in place during the 1960's and 1970's, and they have been continuously updated to keep pace with industry changes. For example, the Truth in Lending Act (TILA) was amended in 1988 by the Fair Credit and Charge Card Disclosure Act to add the now well-known "Schumer box" to credit card solicitation disclosures. During the 1980's and 1990's, TILA's implementing Regulation Z was periodically amended with new fee and interest rate disclosures and other requirements for both traditional direct mail and newer Internet marketing channels. Even as we meet today, the Federal Reserve Board is analyzing responses to its recent Advance Notice of Proposed Rulemaking representing a comprehensive review of Regulation Z's open-end credit provisions, and the Federal Reserve Board is preparing to issue regulations pursuant to TILA amendments enacted as part of last month's bankruptcy reform legislation. These amendments require new disclosures regarding the effect of making minimum payments, enhanced "introductory rate" disclosure requirements, new Internet disclosure rules, and other new disclosures.

[1] The many laws and regulations that apply to the credit card industry include (a) the Truth in Lending Act and the Federal Reserve's implementing Regulation Z; (b) the Fair Credit Reporting Act; (c) the Equal Credit Opportunity Act; (d) the Gramm-Leach-Bliley Act, including the federal banking agencies' and FTC's privacy and information security regulations; (e) the unfair or deceptive practices provisions of the Federal Trade Commission Act; (f) the Fair Debt Collection Practices Act; (g) the Telemarketing and Consumer Fraud and Abuse Protection Act; (h) the Telephone Consumer Protection Act; (i) the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 (the CAN-SPAM Act); and (j) the Community Reinvestment Act.

In addition, the bank regulatory agencies have taken a series of new actions regarding unfair and deceptive acts and practices. In 2002, for example, the Office of the Comptroller of the Currency (OCC) issued guidance to national banks cautioning that practices can be found unfair or deceptive despite technical compliance with applicable TILA and Regulation Z requirements. Last year, the OCC augmented this letter with specific guidance on various credit card practices, including the marketing of "up to" credit limits, promotional rate marketing, and repricing of accounts and other changes in credit card terms. These advisory letters have supplemented well-publicized OCC enforcement actions.

All U.S. card issuers are subject to federal or state regulatory agency oversight. Citi Cards' two card issuers are both national banks that are subject to regulation, examination, and supervision by the OCC. We meet formally with the OCC to review the types and trends of customer complaints that its national Customer Assistance Group receives about the banks it regulates, including Citi Cards. Like other banks, we undergo regularly scheduled, extensive consumer compliance and Community Reinvestment Act (CRA) examinations. We also have full-time on-site OCC examiners who constantly review our practices and policies.

III. Citi Cards and Our Customers

A. Our Goals for Our Customers

In a highly competitive marketplace in which consumers have numerous payment card choices, we recognize that customer satisfaction is a driver of business revenue and that a lost customer is difficult and expensive to replace. We therefore constantly work to meet consumer demand and maintain customer loyalty. We strive to be responsive to our customers' needs and concerns.

We recognize that an educated customer will be a more satisfied customer. Accordingly, we take great care to make sure that we provide access to consumer education in our communications. We reach out to educate our customers in a variety of ways. For example, our "Use Credit Wisely" program helps our customers learn to enjoy the flexibility and the convenience of our credit cards without a resulting burden. Our websites (www.usecreditwisely.com and www.students.usecreditwisely.com) have important information for students and other consumers, including rules for using credit responsibly, tips for gaining financial control, credit education tests, a glossary of important credit-related terms, and tips to prevent identity theft.

Financial education is an integral part of the work we do every day and a major focus of our effort to make a difference in the communities where we live and work. Recently, Citigroup and the Citigroup Foundation announced a 10-year global commitment of $200 million toward financial education and, as part of this commitment, Citigroup announced the formation of the Office of Financial Education.

B. Reaching New Customers

1. Credit Availability

We strive to make credit available to consumers as their needs change throughout their lives. One of the ways new entrants to the credit market begin to build a credit history is with their first credit card. We reach out to groups that are new to credit, such as college students and recent graduates, for whom a credit card relationship offers a necessary payment tool, security, and means for them to build a positive credit history.

With new entrants to the credit market, we normally start the customer with a credit line tailored to his or her individual circumstances. These new customers, just like our general customer population, must demonstrate that they can manage their credit responsibly before we will increase their credit line. Our experience with college students has shown that they compare favorably with our general customer population in terms of credit management.

2. New Customer Solicitations

We use direct mail to find the majority of our new customers. We mail prescreened offers (which are sometimes referred to as "preapproved offers") to consumers who have been selected to receive the offer. This selection process includes credit bureau screening for bankruptcy filings, delinquent and written-off accounts above certain amounts, debt levels above certain amounts, and other credit problems. The selection process also includes the use of our internal credit scoring model in order to apply more sophisticated credit criteria before the offer is mailed. When the consumer responds to the prescreened offer, we then review his or her actual credit bureau report and apply the same credit bureau and modeling criteria that we did in the selection process to make sure that the consumer is still creditworthy.

We also mail offers to consumers without prescreening. When a consumer responds to this type of offer, we review the consumer’s credit bureau report and apply basically the same credit bureau and credit score modeling criteria that we use for our prescreened offers.

3. Recent Revisions to Our Solicitation Materials

Our goal is to assure “no surprises” for our customers and to continually improve upon our practices. In reaching new customers, this means that all of our written materials must describe our products clearly, accurately, and fairly.

Citi Cards recently redesigned our solicitation letters to assure “no surprises” for our new customers. In doing so, we also made sure that our new letters were consistent with the OCC Advisory Letter of September 14, 2004, which requires national bank credit card issuers to review specified credit card marketing and account management practices.

While we have always disclosed our right to reprice accounts, we took the Advisory Letter as an opportunity to review our disclosure practices. As a result, we now tell consumers in more detail at the time of solicitation that their account terms could change. We specify that information in the consumer's credit bureau report -- such as failure to make a payment to another creditor when due, amounts owed to other creditors, number of credit accounts outstanding, or the number of credit inquiries -- could cause us to reprice the account. This is to help educate consumers about how we use credit bureau information. Moreover, we tell them that our right to change the terms of our accounts with them based on credit bureau report information is subject to their right to prior notice and their right to opt out of the change.

In addition, we now repeat on page one of our solicitations selected disclosure information about the terms of credit that previously appeared only on the second page in the large print Regulation Z “Schumer box.” For example, if a promotional rate applies to balance transfers and there is a balance transfer fee, that fee information from the Schumer box is now repeated on page one of the solicitation.

C. Our Relationship with Our Existing Customers

1. Products and Services

Our goal is to make sure our customers know how to use their card and all of the services available to them. New customers receive a Directory of Services with their credit card. The Directory of Services is tailored to each of our individual credit products so that it can explain all the benefits of the card to the new customer. These benefits include the opportunity for the customer to request that a photo be put on the front of his or her card for added security, as well as the other security features that apply to our cards, such as Citi Identity Theft Solutions. We let them know how to reach us, both by phone and on-line, so that they can take advantage of the benefits that their card offers. We also have a Welcome Kit that we send to new customers to make them aware of an array of products and services that are available.

2. Customer Satisfaction

We conduct research on an ongoing basis to understand existing and prospective customer needs and wants. This research helps us identify and recommend products, services, and processes that satisfy marketplace desires and improve the customer experience.

Our call center associates receive extensive classroom training prior to handling customer contacts. This includes specialized modules around key "soft skill" attributes such as courtesy, empathy, tone, listening skills, proactive service, and the importance of the customer experience.

We also work very closely with our customers who advise us that they are having financial difficulties. We offer various options to these customers, such as reducing minimum payments, reducing interest rates, waiving fees going forward, or crediting back fees that have already been billed. In addition, we work with non-profit consumer credit counseling agencies and support customer debt management plans.

3. Risk-Based Pricing Policies

Because credit card loans are unsecured and open-ended, it is important that we are able to employ various methods of recognizing and mitigating risk. Constraints on risk-based pricing would lead to less access to credit for those in need, higher prices for all consumers, and a less competitive marketplace.

The best indicator of whether an individual will repay a loan is his or her payment behavior with us and other lenders. Pricing loans for risk is a fair and equitable method of compensating lenders for making loans that carry a higher possibility of default. It is also consistent with the regulatory and business goal of assuring that we conduct our business in a safe and sound manner.

If we see indications that a customer is taking on too much debt, has missed or is late on payments with another creditor, or is otherwise mishandling his or her personal finances, it is not unreasonable, as an unsecured lender, to determine that this behavior poses an increased risk. In the interest of all of our customers and the safety and soundness of our banks, we adjust a customer's rate to compensate for that increased risk.

In the past, our agreements with our cardholders provided that a delinquency with another creditor (referred to as an “off-us” delinquency) gave us the right to automatically increase a customer’s interest rate. Now, before we increase a customer’s rate due to an off-us delinquency, we provide prior notice to the customer explaining why his or her rate is being increased and give the customer the right to opt out of that increase. If the customer opts out, he or she may continue to use the card with the existing rate until the card expires. When the card expires, no new charges are allowed. However, customers may continue to pay off their balance using the existing rate and payment terms. The events that allow us to automatically increase the interest rates are now limited to three types of behavior that relate to a customer’s relationship with us: failure to make a payment to us when due; exceeding the credit line; or making a payment to us that is not honored.

4. New Change in Terms and Opt Out Notice

We also recently redesigned our Change in Terms and Opt Out Notice. Our newly rewritten and reformatted notice is shorter, more concise, and uses white space and bold headers to ensure that key messages stand out. To highlight to our customers that they can opt out of a change in terms, we added the words “Right to Opt Out” to the title of the notice and the paragraph heading. Finally, we added a toll-free telephone number as an alternative opt out method.

This right to advance notice and opt out affords significant protections for customers. For example, if we notify a customer that his or her interest rate will be increased due to adverse information in a credit bureau report, the specific reasons for the proposed repricing (*e.g.*, failure to make payments to another creditor when due) are included in the advance notice, and the advance notice names the credit bureau providing the information so the customer may challenge the report if he or she thinks the information is inaccurate.

5. Redesigned Customer Agreements

In a continuous effort to improve our customer communications, a few months ago we completely rewrote, reformatted, and simplified our credit card agreements. Then we added on the first page a section entitled "Facts About Rates and Fees" that summarizes critical card pricing information in a single place, much like the nutritional labels found on food products. We emphasize this pricing information by bolding key words and phrases so that it will be more useful to our customers. This "Facts About Rates and Fees" section also includes a description of the reasons we may use to change the rates and fees associated with their account.

6. Anti-Fraud Initiatives

Citi Cards is committed to protecting our customers from fraud and identity theft and we are continuously developing new programs to deal with these problems. We were the first card issuer to have a photo ID on the credit card in 1992. More recently, in 2003, we created the ID Theft Solutions program with an internally staffed unit dedicated to handling ID theft cases for our customers even if the ID theft relates to another of their cards that we did not issue. This year we announced a new collaboration with the National District Attorneys Association where we work with state and local prosecutors nationwide to develop new strategies for the arrest and prosecution of identity thieves. Similarly, for our Internet channel, we rolled out a program to stop "phishers" from spoofing our customers who use the Internet. We created a special security box that appears on the top of all emails sent by us to Citi customers -- known as the "Email Security Zone," and we provide dedicated Internet security specialists to help customers with questions about suspicious emails and other security issues.

7. New Minimum Monthly Payment Formula

This year we are changing our minimum payment formula to ensure that every customer who pays only the minimum monthly payment pays off his or her debt in a reasonable period. Under this new schedule, a customer's minimum payment requirement covers interest, late fees, and one percent of the balance due. This formula was adopted to meet the OCC's recent requirement for positive amortization of credit card debt on an individual customer basis. It will increase the minimum monthly payment due for some of our customers, and in some instances dramatically for those whose accounts are at higher interest rates. Although we recognize that, in the short run, some customers could be financially strained meeting these higher monthly payments, we believe that over the longer term the new minimum payment policy will be a net positive for customers as it will accelerate their payment of outstanding debt, and over time it will result in lower total interest payments. In the meantime, we are developing strategies to mitigate the impact of increased monthly payments for customers in hardship situations.

The newly enacted Bankruptcy Abuse Prevention and Consumer Protection Act amends TILA to require creditors to disclose on the front of each billing statement an example showing the time it would take to repay a sample balance if a customer is making minimum payments only. As an alternative under the new law, if a creditor maintains a toll free telephone number that provides customers with the actual number of months it would take to repay the customer's balance, that creditor is not required to provide the sample on the billing statement.

We are currently looking at ways that we could provide this actual information to customers in a manner that will not confuse or mislead them but that will instead be beneficial. We hope to use this requirement to provide information that is a useful, accurate, and effective planning tool for our customers who may desire it.

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Thank you again for the opportunity to appear before this Committee. I would be pleased to answer any questions you may have.