NEWS RELEASE

Comptroller of the Currency
Administrator of National Banks

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Providian to Cease Unfair Practices, Pay Consumers Minimum of $300 Million Under Settlement with OCC and San Francisco District Attorney

WASHINGTON -- The Office of the Comptroller of the Currency has entered into a settlement with Providian National Bank that directs the bank to cease a number of unfair and deceptive practices and to pay at least $300 million to consumers harmed by those practices. At the same time, the San Francisco District Attorney entered into a similar agreement with Providian's parent, Providian Financial Corp.

In reaching the settlement, which culminates year-long investigations by the two agencies, the OCC concluded that the bank engaged in a pattern of misconduct in which it misled and deceived consumers in order to increase profits. The OCC believes hundreds of thousands of consumers were harmed by Providian's activities, and that the bank profited as a result.

"When a bank engages in unfair or deceptive marketing practices, it damages its most precious asset -- the trust and confidence of its customers," said Comptroller of the Currency John D. Hawke, Jr. "That relationship of trust and confidence is central to the bank's safe and sound operation. We will not tolerate abuses that breach that trust through unfair and deceptive practices."

Mr. Hawke said the settlement reached with Providian balances the interests of consumers with important regulatory goals.

"This settlement provides for restitution for customers of Providian nationwide who were harmed by the bank's practices," he said. "It also ensures that, going forward, Providian will conduct its business in a way that both respects the interests of its customers and protects the safety and soundness of the bank."

"Because of this settlement, every consumer who does business with Providian will receive complete and understandable explanations of the bank's products and will therefore be able to make an informed choice about their financial dealings," added Julie L. Williams, First Senior Deputy Comptroller and Chief Counsel. "We intend to monitor the terms of this consent order very closely to make sure that happens."

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Ms. Williams added that the settlement represents a step forward for Providian.

"They have recognized there was a major problem and they have agreed to take appropriate steps to correct their practices and to pay restitution to those customers we believe they misled," she said.

The bank's conduct involved unfair and deceptive practices in violation of the Federal Trade Commission Act, and was unsafe and unsound within the meaning of the Federal Deposit Insurance Act. In addition, the bank's conduct violated the California Business and Professions Code and the Fair Credit Reporting Act.

In entering into the consent order, the bank did not admit or deny wrongdoing. However, the settlement addresses a number of practices that the OCC and the San Francisco District Attorney found objectionable.

The OCC believes the bank failed to adequately disclose to consumers the significant limitations in a credit protection program it marketed. Consumers who purchased the product were told they would not have to make card payments for up to 18 months in the event of involuntary unemployment, hospitalization, accident, sickness or disability. Moreover, interest would not accrue, late fees would not be charged and the account would not be reported to credit bureaus.

However, the OCC believes the bank failed to adequately disclose that benefits would be limited to the number of months in which the consumers had paid credit protection fees, rather than the advertised 18 months, and that benefits for involuntary unemployment could not be used until three months of fees had been paid. In addition, the OCC believes the bank did not adequately disclose that it could deny benefits if the credit card was not current or if it was over the limit, and that unemployment benefits would not be available if the customer's job was part-time, even if that was his or her only source of income.

Providian could also deny benefits if the customer made more than the minimum payment on any other credit account or if the customer used another institution's credit card or accessed credit from any other lender.

In another program, consumers who agreed to transfer credit card balances to a Providian-issued card were promised lower rates than they had been receiving. However, the OCC believes the bank marketed it in such a way that customers did not find out how much they would save until after they signed up with Providian and transferred balances.

In fact, some customers actually ended up with higher rates than before -- up to 21.99 percent -- and then found out they could not move balances out of the account without paying a 3 percent "balance transfer fee." For those customers who did receive a lower rate, the savings amounted

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to no more than three-tenths of a percentage point in one promotion and seven-tenths of a percentage point in another rollout.

The bank also advertised a “No Annual Membership Fee” credit card which it said would save consumers up to $60 a year over cards that did charge an annual fee. However, the OCC believes the bank failed to adequately disclose that the card required the purchase of credit protection, for which it charged $156 a year.

Instead, the bank discussed the benefits of credit protection in the same section of solicitation letters in which it outlined free credit card benefits. The form consumers signed to apply for the card contained the statement: “I understand that my signature is a request for a Providian VISA card account with all the advertised benefits, including Credit Protection.”

Under Providian’s “Real Check” program, the bank promised a check for $100 or $200 to individuals who transferred credit card balances to the bank. In one promotion, the bank represented: “We want to give you $200! Why? It’s simple...We want your business now.”

However, the OCC believes Providian failed to disclose that customers would be required to transfer specific balances -- $10,000 in one promotion -- to receive the $200. Employees were instructed to contradict customers who questioned why they weren’t told of the balance transfer requirement, a tactic that had the effect of confusing or intimidating customers.

Under the consent order, Providian must pay out at least $300 million to its customers. However, that amount is the minimum required under the settlement. If the required restitution calculated under the methodology mandated in the settlement exceeds $300 million, the bank will be required to pay the additional amount.

The settlement requires Providian to change its policies and its telemarketing scripts to ensure that all fees, charges and product limitations are fully and accurately disclosed to consumers before the purchase of any product. Providian must refrain from making any misleading or deceptive representations to consumers and consumers must be given the right to cancel purchases up to 30 days after the first bill.

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