

Statement of
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Comptroller of the Currency
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Subcommittee on Financial Services and Consumer Credit
of the
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Chair Maloney, Ranking Member Gillmor, and members of the Subcommittee, I appreciate this opportunity to discuss the effectiveness of credit card disclosures and related issues. The credit card is in many ways a remarkable success, evolving from a novelty to an essential payment device for roughly three-fourths of American households.

Credit card terms, marketing, and account management practices have also been evolving, in response to intense competition for customers and revenue. This competition has led to the virtual elimination of annual fees; lower interest rates for most consumers; and increased credit availability for more Americans.

But, competition has also led to more complex and aggressive pricing structures, as issuers seek to more effectively target customers, generate additional revenue, and manage their risks. Indeed, from a lender's perspective, credit card loans are perhaps the riskiest form of consumer credit.

Unlike a home mortgage, a credit card loan is unsecured and open-ended. That means the borrower can increase the loan amount at any time, up to a specified limit, and the borrower can keep large balances outstanding for long periods.

As a result, credit card accounts require substantial ongoing risk management, because a borrower's creditworthiness can deteriorate over time. One way that card issuers mitigate this risk is through changes in pricing, whether through increased interest rates or fees.

Such risk-based pricing can be an important risk management tool. But the practice has also generated sharp criticism and numerous complaints – especially from consumers who were unaware that the cost of their credit could increase.

This last point implicates the key focus of this hearing: the effectiveness of disclosures. As the GAO noted last year in its comprehensive report, disclosures are the primary means under federal law for protecting consumers against inaccurate and unfair credit card practices. Unfortunately, disclosures plainly have not kept pace with the changes and complexities in credit card practices.

Neither has disclosure regulation. In particular, such practices as “universal default” and “double-cycle billing” have been especially difficult for consumers to understand given current disclosure rules.

The OCC does not have the legal authority to issue regulations under the primary consumer protection statutes that govern credit card lending. Nevertheless, we do supervise many, but not all, of the largest credit card issuers.

As described in detail in my written testimony, the OCC has a comprehensive risk-based program for oversight of credit card lending by national banks, using four primary tools – examination, complaint analysis, supervisory guidance, and enforcement.

But there are limits to what the OCC can accomplish alone to reform disclosure practices. That's why the Federal Reserve's undertaking to revise its disclosure rules is so important. Changes to Regulation Z would set new standards that apply to all participants in the credit card industry.

And improved, effective disclosure of credit card terms can have three fundamental benefits for consumers: first, informed consumer choice; second, enhanced issuer competition to provide consumers the terms they want; and third, greater transparency that will hold the most aggressive credit card practices up to the glare of public scrutiny and criticism, making issuers think long and hard about the costs of such practices before implementing them.

Our preliminary reaction to the Board's proposal is very positive, as it incorporates many of the approaches to effective consumer disclosures that we previously recommended. Nevertheless, we expect to provide additional suggestions during the comment period.

A lingering question, of course, is this: can improved disclosure be sufficient to address the fundamental issues raised by current credit card practices? We certainly hope so, and we believe changes to Reg Z show real promise for addressing a number of these issues.

Moreover – and this is partly due to public criticism raised by members of this Subcommittee and others – most national bank issuers have already moved away from such practices as universal default and double-cycle billing.

In addition, there are potential costs associated with going beyond disclosure. For example, proposals to restrict risk-based pricing could have unintended consequences regarding banks' ability to manage risk, or on the availability and affordability of credit cards more generally.

As Congress continues to weigh these issues, the OCC stands ready to provide additional information that the Subcommittee may need.