

STATEMENT OF
RICHARD SREDNICKI
CHIEF EXECUTIVE OFFICER
CHASE CARD SERVICES
U.S. SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
March 7, 2007

Mr. Chairman, Members of the Committee, good morning. My name is Richard Srednicki; I am the Chief Executive Officer of the Wilmington, Delaware-based Chase Card Services division of Chase Bank U.S.A., N.A.

I am proud to represent, today, more than 16,000 Chase employees around the country who serve the needs of more than 100 million Chase credit card customers.

The credit card business at Chase is based on our relationship with these customers. The great majority of Chase customers fall into categories our industry calls “super-prime” and “prime.” This means, that regardless of income, they are among the most responsible and knowledgeable credit users in the country. They use their credit cards wisely to manage cash flow and provide themselves and their families with the convenience, protections and special offers of credit cards, while avoiding fees and maintaining low annual interest rates.

The numbers are a direct reflection of this. Chase has one of the lowest average effective interest rates in the industry. Well over a third of our customers regularly pay their balances in full, enjoying the convenience of an interest-free loan every month – something that is unique to credit cards. More than 90 percent of our customers regularly pay more than the minimum monthly payment, and late fees and over limit fees affect a very small portion of our customers each month.

We appreciate our customers, and we believe our success is based on maintaining a solid, long-term relationship with every one of them. We also believe it makes good business sense for our customers to take advantage of the benefits that we offer and that come with responsible credit use.

The vast majority of Chase Card customers are extremely responsible users of credit and credit cards.

Let me give you a composite portrait of a typical Chase credit card customer family. Sarah and John are schoolteachers and live in suburban Philadelphia. They have two children and together earn just over \$75,000 a year. They use their Chase credit card, which provides them with airline mile rewards for vacations, and most months they pay off their balance in full. Last summer, they bought some furniture for their new nursery and made the decision to pay for it over several months, during which time they managed their other expenses carefully to accommodate the special purchase. They, and millions of Chase customers like them, appreciate the security, instant access to credit, and

flexibility of payment preference their card gives them; and they use it wisely in a way that makes sense for their family.

Sarah and John represent the 92 percent of our customers who begin and end the year with the same or a better interest rate because they manage their credit responsibly, pay their bills on time, and stay within their credit limit.

Let me also make it very clear that we are well aware that a very small group of our customers may, at some time, find themselves in financial difficulty. For some, their difficulty may be for a short period of time as a result of a temporary situation; others may have more serious situations that have longer-term consequences. We care deeply about our customers who may find themselves in any of these situations, and we have trained advisors and systems to identify and assist these families, long before the situation becomes dire or impossible. It is in both of our best interests, the bank's and the customer's, to identify them and help them pay off a balance or work out a payment plan.

This outreach process may begin with a letter or a call from us to let someone know we are aware they are behind on a payment – a reminder of the consequences of being late and an offer to discuss the situation. Over time, it may lead to entering a debt management program where interest rates are reduced and fees suspended to help people work their way out of debt.

We assist over half a million customers in this way every year. Through programs and policies designed to help improve their situations, 70 percent, or more than two out of three of our customers who enter into debt counseling and management do get out of debt and back on track.

We maintain an active and open dialogue with our customers in these assistance programs and continuously assess their satisfaction. Among the customers in assistance programs, we have an overall satisfaction rate of 82 percent. This indicates that the lion's share of our customers who encounter difficulties feel that we work to try to help them.

Because we are real people working to serve 100 million customers, I regret to say that there could be instances where a customer facing these kinds of difficulties may fall through the cracks. Clearly, there is room for improvement, and Chase is an organization dedicated to continually evaluating its policies and procedures in an ongoing effort to improve them.

We work very hard to be a responsible credit card bank, and this means treating all of our customers fairly. We believe that is the best way we can do business and assure ourselves good customer relations for the long term.

Part of treating our millions of customers fairly is to understand that we owe them something in addition to the attractive and competitive credit card products they hold.

The first thing we owe them is clear information about the card, including their annual interest rate and what can happen if they do not understand and meet the obligations of their account agreement. We also owe them a fair and proactive effort on our part to help them understand and follow the rules, which is why we continue to develop ways to communicate with customers online, through mailings, and with our customer service advisors.

We are always reviewing our customer card agreements and other disclosure communications and looking for ways to improve the clarity of the information and help enhance customer understanding.

Clarity, simplicity and fairness are important because credit cards have become more complex financial products. Over the last 20 years, many issuers in the credit card industry have changed their pricing models from a one-size-fits-all format to one that is focused on individual creditworthiness – a format that encourages and rewards responsible use of credit with the best rates and terms. Indeed, our research shows that consumers overwhelmingly prefer a system of pricing tailored for every consumer.

This individual approach to pricing has afforded many consumer benefits and, indeed, has had a major impact on society, making credit cards available to vastly more people at greatly reduced interest rates. According to a recent Government Accountability Office (GAO) report, 15 years ago the average interest rate paid by a credit card holder was roughly 20 percent, and most cards had annual fees of \$20¹ or more. During the mid-1980's, there were about 100 million cards in use in this country². Today, says the GAO, the average interest rate is 12 percent³ and, in addition, nearly 75 percent of credit cards do not have annual fees⁴. By 2005, there were more than 690 million cards in use⁵, helping produce \$2 trillion dollars in sales in the U.S. economy⁶.

The change to pricing, which is tailored to individuals, indeed rewards those who manage their credit responsibly, who make their payments on time, who do not go over their credit limit, and who do not let their overall credit score deteriorate.

Like all banks, we follow the regulatory language regarding disclosure about the credit card agreement between the issuing bank and the customer, and that language is long and legal. We know that the industry and the government are reviewing ways to simplify and improve – and we are part of that process.

However, we are not waiting for new regulations; we are taking our own proactive steps to help improve the clarity of information we share with our clients now.

¹ Credit Cards – Increased Complexity in Rates and Fees Heightens Need for More Effective Disclosures to Consumers, The United States Government Accountability Office, p. 15.

² Ibid, p.10.

³ Ibid, p.15.

⁴ Ibid, p.13.

⁵ Ibid, p.10

⁶ Ibid, p. 9

At Chase, we are testing simplified, easy-to-understand explanations of the rules of our credit cards agreements. We want this clear information to guide customers in understanding the most important aspects of their credit card relationship with us. This is in addition to the supplemental information – above and beyond the required disclosures – that we provide to our cardmembers regarding the best ways to avoid fees and preserve their best rates (see addendum 2).

We have worked hard to build our business around our customers' needs. Customers have asked us to help them avoid late and "over-the-limit" fees and maintain the best interest rate available. So Chase has developed a service called "Free Alerts." Customers can choose a telephone, email or text message alert that reminds them when a payment is due and when a payment has been posted to their account – or notifies them when their spending has reached their self-determined limit.

Many customers have told us, too, that they want greater options for paying their bills, including those that allow them to make payments on their due dates. We recently further upgraded our online services and continue to see an increase in customer adoption and usage to manage their accounts. Now, through our Chase automatic payment program, we offer an enhanced ability to make fast, free electronic payments on the exact day they are due, to avoid late fees and retain access to their funds for the maximum amount of time.

In addition, we allow our customers to select a personal payment due date that we will never change from month to month so they can best time payments to pay days or other income streams. We believe that common sense tools that can help our customers will go a long way toward making their lives a bit easier and reinforcing our long-term, valued relationship with them.

These tools help create good customers for Chase too. It is in our best interest, to have satisfied customers who pay their bills on time, stay within their credit limits and manage their credit wisely.

That is why we believe all consumers, customers or not, should have the opportunity to increase their financial literacy. There is a steady drumbeat in the print, TV and online press aimed at consumers, telling them that an essential step to controlling finances is gaining control over credit cards. At Chase, we believe the responsible use of credit cards by our customers helps develop the best, long-term relationship with them.

That is why we have made more than \$100 million in grants to community-based organizations to help fund credit education programs and credit counseling services over the past few years. This month we launched a new, multi-million financial literacy grant program – adding to our multi-million dollar investment in helping people of all ages use credit responsibly. We are also continually adding to our credit education programs aimed at helping students understand the importance of responsible credit use. We support several innovative financial education programs for students that we believe have helped cultivate the responsible behavior of young people.

The high creditworthiness of our customers, our ability to effectively evaluate risk, together with the high value we place on customer relationships, are the reasons why 92 percent of Chase customers begin and end the year with the same rate or a better interest rate.

Only a small segment of our customers will have a change in creditworthiness that will result in a higher interest rate. When they do, we deal with them fairly and responsibly. We let them know the reasons for the change in status, and we let them know they have options. They can discuss the matter with us and, if they wish, they can opt out and close an account and pay off the balance at the old interest rate over time.

We do want to help customers, and we treat them as individuals.

We proactively reach out to all customers to make sure they understand the importance of paying on time and how to avoid fees. We also contact customers who pay us late or have other behavior that indicates that they may be getting into financial difficulty. We want to help customers maintain a good relationship and low interest rate with Chase. Once again, this illustrates in real terms the value we place on long-term relationships with our customers.

We believe that our individualized approach to dealing with on-going pricing decisions results in fewer customers being impacted than at many other banks. For example, while our policies give us the ability to raise an interest rate if a customer pays us late, we take that action sparingly. We only change the rate of one in ten customers who pay a late fee. Why? Because we recognize that for the majority of our customers, an occasional slip up is not an indicator of increased risk.

There are many elements to pricing. Each issuer has a unique model based on the customers they have, and each issuer applies its policies in different ways. One element of pricing, viewed without consideration of others, does not provide a picture of the full customer experience. We are confident that the pricing model and practices at Chase provide the best value to our customers.

We believe that our success in retaining customers over the long-term indicates to us that the vast majority of our customers feel they are being treated fairly – in fact, in this very competitive environment, more than 85 percent of the customers that we had five years ago are still with us (This excludes accounts that have defaulted.) Our good customers are highly desirable to our competitors and often have many attractive credit card offers from which to choose. We are pleased and gratified that only a small percentage of our customers leave us each year for our competitors.

Chase is committed to responsibly providing excellent credit products to customers who use them responsibly, and customers are willing to pay for credit cards because they provide a unique set of benefits. Our business model is based on this relationship of responsibility.

In this way, our customers win with the convenience and exceptional benefits that come with credit cards today: no liability for fraud and misuse so that credit cards are safer than cash; ease of purchase, ubiquitous acceptance and clear records of expenditures; instant access to credit – or in the language of many small businesses, capital; rewards that come in the form of travel, merchandise and cash; and for those who pay their bills in full each month – more than a third of our customers – the equivalent of a free loan for up to 55 days.

Chase wins because we have a solid, stable business.

And society wins because the credit card industry as a whole has fueled tremendous growth in the consumer goods sector, which represents 70 percent of the GDP. In 2006, credit cards financed \$2 trillion worth of transactions at more than 25 million businesses, small and large. Without credit cards, there would be no commerce over the phone, reduced business by catalog and virtually no consumer business over the Internet – today, the fastest growing sector of the economy today.

The reality is that the highly competitive credit card business of today is working. Reports over the past several years by the Federal Reserve and the Government Accountability Office generally paint a picture of a credit card industry that is in balance with the needs of Americans.

The most recent Survey of Consumer Finances by the Federal Reserve finds that half of the U.S. households that have credit card balances owe \$2,200 or less⁷. It says that, among lower income households, the percentage with credit card balances have declined. Further, it says that 31.5 percent of households surveyed paid off their most recent credit card bills in full⁸. Now this data is from 2004, and we await the next triennial report, but my belief is that the numbers will have improved based on increased payment rates in the industry.

The 2006 reports by the Federal Reserve and the GAO reach similar conclusions about the credit card industry. The Federal Reserve report concluded that lenders analyze consumer financial behavior carefully before offering credit⁹. At Chase, we extend cards to people we believe are fully able to pay their credit card bills. It is within our business strategy to do so and initiate a relationship that has a solid chance of being long-term in duration.

To the concerns raised in some quarters that consumers pay ever higher fees, accounting for a large part of bank profits, the GAO report found that the total annual and penalty

⁷ Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances, The Federal Reserve Board, p. A31.

⁸ Ibid.

⁹ The Report to the Congress on Practices of the Consumer Credit Industry in Soliciting and Extending Credit and their Effects on Consumer Debt and Insolvency – Board of Governors of the Federal Reserve System, June 2006, p. 3.

fees were roughly the same in 2004 as they were in 1990¹⁰. Both studies concluded that most bankruptcies occur – not as a result of credit card debt, but primarily as a result of “unforeseen adverse events such as job loss, divorce and uninsured illness¹¹.”

The GAO report did conclude that, in the words of its title, there is a “Need for More Effective Disclosures to Consumers.” We agree.

Let me return to the issue of disclosure and reinforce what I said earlier. At Chase, we continue to work on this. We believe that clear, simple information is key to a successful customer relationship, and we are committed to keeping our customers clearly and fairly informed of every aspect of their accounts. Well-informed customers are the most likely to understand and appreciate our products, and to use them wisely.

We pay strict attention to the standards that the Federal Reserve Board has set for credit card disclosures, including the level of detail we are required to provide and the specific language they suggest.

However, we believe everyone is in agreement that the volume and types of disclosures mandated also by federal and state laws have not led to greater understanding. Our customers are telling us that today’s disclosure lacks sufficient clarity. We pay close attention to our customer feedback. In turn, we have proactively taken steps to help customers understand the aspects of the credit relationship that they have indicated to be confusing.

We have developed supplemental language designed to help customers understand how they can best use their credit cards and avoid fees and having their interest rates raised. We are moving ahead with our programs as we work with the Federal Reserve on its disclosure revisions.

We believe that regulators, consumers and the industry need to work together to improve the clarity, simplicity, fairness and understandability of disclosures. We not only welcome, but also actively seek, opportunities to work with regulators to make significant improvements that provide consumers with clearer, more effective disclosures.

Let me close, Mr. Chairman, by saying that we at Chase Card Services understand that, while disclosure is a critical issue for consumers, it will not immediately mitigate every concern raised in relation to consumers who are working through very difficult credit situations. At Chase, we too are concerned, which is why we support financial literacy programs and have worked with our own customers to help them work their way out of severe debt situations. In addition, we are constantly looking for ways to improve our

¹⁰ Credit Cards – Increased Complexity in Rates and Fees Heightens Need for More Effective Disclosures to Consumers, The United States Government Accountability Office, p. 105.

¹¹ The Report to the Congress on Practices of the Consumer Credit Industry in Soliciting and Extending Credit and their Effects on Consumer Debt and Insolvency – Board of Governors of the Federal Reserve System, June 2006, p. 25.

customer service procedures in order to identify as soon as possible those who are seriously mired in problems not of their own making. I believe that when we are willing to work with customers and treat them fairly, we can be proud of a credit card system that is doing well by the vast majority of the millions and millions of Americans who use credit cards every day.

Mr. Chairman, we look forward to working with you and the Members of the Committee today to answer your questions and address your concerns.

Thank you.

Addendum to Statement
Richard Srednicki
Chief Executive Officer
Chase Card Services
U. S. Senate Permanent Subcommittee on Investigations
March 7, 2007

1. Chase Card Services Overall Portfolio

Through its wholly-owned subsidiary, Chase Bank USA, N.A., JPMorgan Chase and Co. (“Chase”) at any one time owns approximately 100 to 110 million credit card accounts. Chase will refer to its credit card operations as “Chase Card Services” hereinafter.

Chase Card Services operations resulted in profits of \$3,206,000,000 in 2006. Chase Card Services contributed to 22 percent of Chase’s earnings in 2006.

2. Chase Card Services Billing Policies and Practices

Grace period:

Chase Card Services does not charge periodic finance charges on new purchases billed during a billing cycle if it receives payment of the new entire balance on the current and previous billing statement by the date and time the minimum payment is due, which is generally 20 to 25 days from the current or previous cycle billing date, as applicable. This “grace period” does not apply to cash advances, convenience checks, balance transfers or other cash equivalents. Chase Card Services will assign either a 20-day or 25-day period before the payment due date based on a periodic evaluation of customers’ payment behavior. A large majority of our customers are assigned a 25-day period. Most customers assigned a 20-day grace period typically promptly pay their account balance in full each month or are carrying most of their balances at very low interest rates and don’t require extended time to pay. If they do pay late as a result of a change in grace period and incur a late fee, we waive the fee upon request.

Interest rates for different types of charges and balances:

An account has various APRs associated with each balance type. Merchandise, balance transfers, cash advances and overdraft protection APRs are initially disclosed at new account opening. These rates are generally fixed (ie. do not vary with a change in an index or variable.) In addition, from time to time, we may offer promotional rate offers that apply to specific transactions or to specific activity that occurs on an account. These rates may be limited in duration or may last until the balance is paid in full. Customers may also request reduced APRs, which are evaluated on a case-by-case basis.

Several conditions may cause an increase in rate. Variable rate changes may increase rates based on changes in the relevant index such as Prime. When customers default under the pre-disclosed terms of the cardmember agreement, we may evaluate the accounts for a change in APR. Finally, we may send a change in terms to populations of customers and increase specific APRs on their accounts. This change in terms may be driven by a deterioration of the customer's overall credit standing or by a change in the economic or competitive environment. Whenever we send a non-default change in terms the customer has a right to reject the change and remain at the old APR.

Application of interest payments to monthly bills:

Chase Card Services applies interest to its balances by the use of the average daily balance method. Briefly put, this method involves netting charges and credit every day and then averaging the balances on the account at the end of the monthly billing cycle. Interest is added to the balance each day. The rate of interest, reduced to a daily factor, is multiplied by the balance each day to determine that day's interest. The sum total of each day's interest is the total interest for the month. This calculation continues to be performed until the account is paid in full. However, no interest is charged on purchases if the customer pays in full each month.

Chase Card Services reserves the right to credit payments in an order that it selects. However, Chase Card Services normally credits low rate, promotional balances first. This fact is disclosed in the materials that are a part of all applications, in the customer agreement and a third time when a promotional offer is made to the cardmember.

How interest is charged on accounts with partial payments:

When a customer has a purchase balance on his or her account and pays the purchase balance in full each month, there is no finance charge assessed. When a customer makes a partial payment on the account, the account is now "revolving" and behaves like any other loan. This means that finance charges will be assessed on the loan that is outstanding each day that it is outstanding. For example, if a customer is revolving a balance of \$1,000 and pays \$500 half way through the month, the customer will be assessed finance charges on \$1,000 for half the month and on only \$500 for the remainder of the month. This example excludes daily compounding of finance charges. As described above, finance charges are compounded daily.

3. Chase Card Services Fees

Chase Card Services typically does not solicit new accounts with an annual membership fee unless the account participates in certain rewards programs.

Fees may be charged for certain types of transactions. Purchases made using a credit card are not subject to a separate fee from Chase Card Services. Transactions that

may be subject to a fee include foreign currency transactions, cash advances, cash equivalents, balance transfers or the use of checks posted to a credit card account. The fee is generally equal to a charge of up to three percent of the amount of the transaction, with a minimum ranging from \$5 to \$15, and generally a cap of \$99 or less for most balance transfers or balance transfer checks and no maximum for cash advances and cash equivalents. These fees may be waived for special promotions.

Chase Card Services may assess a late payment fee, generally ranging from \$15 to \$39, depending on the balance on the account for most consumer revolving credit card accounts, if it does not receive the minimum payment by the payment due date shown on the monthly billing statement.

Chase Card Services may assess a return payment fee of \$39, for each payment check or electronic payment that is dishonored, an overlimit fee of \$39 when the credit line is exceeded and administrative fees for certain functions performed at the request of the cardholder.

Customers can make payments for free by mailing their payment to the designated P.O. Box shown on their billing statements, making their payment online through Chase's website, arranging automatic debit of an account that the customer designates, or through a Chase bank branch.

Payments made in the following ways are charged fees:

Chase advisor-assisted payments: \$14.95.

Chase voice response system (VRU) payments: \$9.95.

Chase online payments – expedited after 4 PM, “same-day” basis: \$14.95.

4. Chase Card Services Payment Allocation Policies

Promotional rate balances are paid before higher rate balances. Within each balance type, finance charge balances are paid before principal balances. Payments are generally applied last to standard-APR cash advance balances.

Applying payments to lower APR balances first reduces the balance that will convert to a higher APR when the promotional period ends.

5. Chase Card Services Handling of [higher risk] Customers

It is our policy and practice to offer a variety of solutions to cardmembers who demonstrate a need for alternative arrangements or have requested assistance. The solutions range from temporary to long-term, such as fee adjustments, fee suppression, APR reduction, re-aging the delinquency status, minimum monthly payment changes, settlement arrangements and Consumer Credit Counseling referrals. The solution offered varies depending upon the individual cardmember's situation. In doing so, Chase Card Services will adhere to the Federal Financial

Institutions Examination Council (FFIEC) Retail Credit Classification and Account Management guidelines (AMG) ensuring proper handling of cardmember accounts.

Chase Card Services also proactively reaches out to customers who, while still making their payments obligations, are also showing early indications of financial distress. Chase Card Services contacts the customers to review their situations and provides credit education and alternative solutions if needed.

As we have explained to the Permanent Subcommittee on Investigations (PSI) Staff, disclosure of the Chase Card Service collection policy would give Chase Card Services competitors valuable information that could be used to better compete with Chase Card Services. The agreement that Chase Card Services and Staff have reached is that Chase Card Services will produce the specific policy that is applicable to the testifying witness. Staff will in turn assure us that the policy will not be disclosed except in the event that (a) Senator Levin should refer to it during the hearing or (b) PSI publishes a report of the hearing.

AVOID PENALTIES FOR LATE BILL PAYMENTS AND KEEP YOUR GOOD RATE

HERE'S HOW:

FREE

Auto Bill Pay

- Set your payments for the full statement balance or minimum monthly payment.
- Choose the bank account from which you wish to make your automatic payment.
- Select the payment due date that works best for you.

FREE

Online Bill Pay

- Log on and pay your credit card bill online anytime, anywhere.
- Our secure payment center is available 24 hours a day, seven days a week.
- There's never a fee for payments made within our normal bill processing hours.

FREE

E-mail Alerts

- Customized reminders to notify you of your available credit or current balance.
- Alerts when your payment is due, a payment has been posted to your account, or no payment has been received.

FREE

Paperless Statements

- View statements from the secure website in the same format as your current paper statement.
- View current statement and up to six months of previous statements online.
- Get notified by E-mail when your current statement is ready.
- Save statements to a personal computer and print a copy as needed.

Follow these easy tips

Just remember this advice to keep your credit in good standing:

- Pay at least your minimum balance every month.
- Keep your balance below your credit line at all times.

**Visit www.chase.com to sign up today!
It's fast, convenient, secure, and free!**