

**Testimony of Vikram A. Atal  
Chairman & Chief Executive Officer of Citi Cards**

**Before the Senate Permanent Subcommittee on Investigations**

**March 7, 2007**

Thank you Mr. Chairman and Members of the Subcommittee. My name is Vikram Atal, and I am the Chairman and Chief Executive Officer of Citi Cards. I joined Citibank in 1986 and began working in the company's cards business in 1996. I have been CEO of Citi Cards since September 2005. I appreciate the opportunity to appear before you today to discuss the credit card business and how we serve our customers. These are important issues that I know have long been of interest and concern to you and I look forward to reviewing them with the Subcommittee.

I understand that the Subcommittee's primary focus today is on issues relating to the transparency and fairness with which card issuers treat their customers. We welcome that conversation and I will explain what we have been doing at Citi in recent years to pursue those ends, including important new initiatives that we have recently announced. Our overriding commitment is to put our customers first. That's good for our customers and good for business. We think we do quite a good job of that, but are also continually looking for ways to do still better.

**Background**

At the outset, I'd like to step back for a moment and provide some context for addressing the important issues the Subcommittee has identified. To appreciate how interest rates, fees, and grace periods work, it is important to understand how the credit card business model works, how that has changed in the past 20 years, and why we think this change fundamentally has served the public.

Credit cards have become an integral part of our nation's economy, providing real and significant benefits to merchants and consumers alike. Merchants of all sizes benefit from the liquidity, security, and efficiency of credit cards. And for consumers, credit cards are a safe and convenient alternative to cash, making everyday purchases more efficient, opening up the option of online shopping, and facilitating consumers' ability to track and manage their spending. Responsible credit card use is also often an individual's first step toward establishing the positive credit record necessary to finance a car, a house, or a small business, or to achieve other personal financial milestones.

At the same time, to understand how the business of credit cards works, it is crucial to recognize what is actually going on whenever a person uses his or her credit card. While I imagine that most people don't think of it this way, the reality is that every time a person uses a credit card to buy something, we are in effect making them an unsecured loan -- one that is a lot riskier from a lender's perspective than many of the common loans consumers take out. A credit card loan, after all, is not backed up by any tangible security as are mortgages, auto loans or home equity lines of credit. Nor is it based on any detailed or personal familiarity between a local banker and his customer. It is an extension of credit secured only by a customer's promise to repay.

Before the late 1980s, the credit card market was essentially a one-size fits all proposition and was far narrower than the market we see today. Customers were typically assessed a \$20 annual fee and interest rates were nearly 20% across the board, regardless of the risk profile of any particular customer. In the last 15 years, this model has changed dramatically. Underwriting practices have become more refined, allowing banks both to offer lower priced credit for people with solid credit histories and to extend credit to customers who were previously underserved or had no access to unsecured credit. The availability and competitive pricing for credit cards combined with more precise underwriting analytics has, over time, led to an expansion of consumer credit across the economic spectrum. Banks are able to open more new accounts, increase existing account credit lines, and offer rewards programs and the like to a broad range of customers.

The capacity to consider risk when making credit available is the key that makes this system work. Without that ability to differentiate risk, less creditworthy consumers would have fewer appropriate means of accessing credit, relatively risk-free consumers would face a higher cost of credit, and bank lending strategies would be significantly curtailed. Our practices as they concern interest rates and fees all need to be considered in this light.

As a general matter, the broad expansion of credit I've referred to-- some call it as the democratization of credit -- has been a good thing. Average credit card rates have declined nearly six percentage points compared to the average rates that prevailed in 1990. Overall, credit card debt remains a small portion of household debt. The Federal Reserve has reported that credit card balances as a percentage of total household debt actually *declined* from 3.9 percent in 1995 to 3.0 percent in 2004.

The lending model for credit cards is unique and the business works on a relatively thin margin. Year after year, we make roughly the same return of \$2-2.50 for every \$100 we lend, which equates to only about \$1 for every \$100 of sales charged to our credit cards. And even that margin depends on careful management of several different kinds of risk -- the credit risk involved in whether customers will be able to repay their obligations; the interest rate risk that our

own cost of funds may rise more rapidly than expected; general economic risk; the fraud risk that cards fall into the wrong hands and are used illegally; and the operational risk that any business faces when managing complex systems.

### **Citi's Record of Serving Customers**

We operate in a highly competitive marketplace in which consumers have numerous payment card choices. Customer satisfaction drives our revenues and lost customers are difficult to replace. We constantly work to meet consumer demand and maintain customer loyalty, because we know that if we don't provide the best products and the best service, our customers will go elsewhere. So our mission is to put our customers first.

With this in mind, we have taken many steps in recent years to improve the products and services we offer our customers. I want to discuss briefly a few of these, and I want to start with two important changes that we announced just last week.

***Universal Default.*** First, we are eliminating re-pricing for what we call "off-us" behavior, known by some as "universal default." It is standard practice for credit card issuers to consider a customer's credit behavior with respect to other financial commitments to other companies, and to increase their interest rates if warranted by such behavior. That is not an illogical practice, since a customer's credit behavior elsewhere has proven to be predictive of their behavior with us. Still we recognize why customers, and others, would question the practice. So even before last week, we engaged in the customer-friendly practice of giving customers the right to opt out of any such proposed increase in their interest rates, while still maintaining full use of their card until expiration.

But last week we decided to go even further. We eliminated the practice altogether for all customers during the term of their card. Citi will consider increasing a customer's interest rate only on the basis of his or her behavior with us -- when the customer fails to pay on time, goes over the credit limit, or bounces a checks. This change will be described in our customer communications by summer.

***"Any time any reason."*** Second, we are eliminating what is commonly known as "any time for any reason" increases to the rates and fees of our customer accounts. Traditionally, credit card issuers have taken the position that they can increase the rates and fees of a cardholder's account at any time for any reason, for example, to respond to general conditions in the financial markets. But last week we announced that we are giving up that practice. Once a card is issued, we will not voluntarily increase the rates or fees on the account until the card expires and a new card is issued (generally two years). The interest rate on the card, if linked to the prime rate as is typically the case, would still go up or down as the prime rate moves. But the only reason we would

consider increasing the rates or fees before the card expires would be if a cardholder pays Citi late, exceeds the credit limit, or pays with a check that bounces. We believe we are the first bank to adopt this policy.

When a credit card expires and a new card is issued we will, as is customary, consider a customer's credit risk and general market conditions in establishing new rates, fees and terms of the account. If we believe any changes are needed at that time, we will give the customer advance notice and the right to opt out. We are implementing the change immediately for new customers and will have it implemented for existing Citi branded credit card customers in April. It will be reflected in our customer communications by the summer.

**Customer Alerts.** In recent years we have seen our customers change the way they prefer to interact with us. They have demanded greater utility online and look for us to provide the tools that allow them to manage all of their account needs through the Internet. This has included viewing their account activity in real time, making payments, changing addresses, requesting statements, and ordering additional cards.

In response to customer expectations we have also developed a set of online tools that are designed to make it easy for cardholders to avoid late fees and to understand and manage their relationship with us. For example, because pay days vary, our customers can choose the day of the month they would find it most convenient to pay their bills. And they can elect to be notified, in advance, about key dates and information related to their bills when they are approaching their credit limit or a payment due date, for example. The program is highly flexible: cardholders can choose which alerts to receive and, for some alerts, how often to get them -- daily, weekly or monthly. These individualized services exist now but are going to be improved in the months ahead to make sure customers are aware of these opportunities and can use them easily.

Alerts are particularly helpful for people who tend to wait until the last minute to pay their bills. We think this kind of customer is better off interacting with us on the Internet. Indeed, when a customer calls to pay by phone, we educate them about how to pay on the Internet. And in fact that's why we have decided to waive the fee for new customers paying by phone for the first time, while encouraging them to pay online next time.

**Financial literacy and consumer credit education.** Citi is an industry leader in financial education and literacy and we have put in place numerous programs to encourage and promote responsible borrowing. We believe it is in the industry's interest to do business with educated consumers who have the ability to pay their bills on time and avoid credit pitfalls.

The centerpiece of our credit education effort is the Use Credit Wisely program, an online program designed to assist consumers in understanding

credit basics, how credit works, budgeting, and how to work through difficult situations such as disability or living on a fixed income. The Use Credit Wisely program also includes specific information and resources on fraud prevention, identity theft and legal rights for consumers; a credit education web site in Spanish for Hispanic consumers and Use Credit Wisely for Business, a site designed specifically for the needs of business owners.

In addition, through the innovative components of our Credit-ED program, Citi provides ongoing support and the latest resources through a variety of targeted channels to help students manage their credit and money responsibly. Since its inception in 2000, the Credit-ED program has distributed more than five million credit education materials free to students, administrators, and parents. Our mtvU Card was acknowledged by the advocacy group Consumer Action as the most impressive program for rewarding students based on good grades and responsible credit behavior.

We are proud that Drexel University's LeBow College of Business in Philadelphia, Pennsylvania has incorporated the Credit-ED challenge as part of the university's financial education curriculum requirement for freshmen. For students, parents, and campus administrators, Credit-ED's comprehensive credit education site, [www.Students.UseCreditWisely.com](http://www.Students.UseCreditWisely.com), features a number of free interactive tools and information on using credit wisely.

Moreover, in 2004 Citigroup and the Citigroup Foundation made a 10-year, \$200 million global commitment to Financial Education and to date have made donations of nearly \$53 million to Financial Education programs in 68 countries.

***Security and protection.*** Citi is an industry leader in protecting customers from theft and fraud and in offering immediate and effective help to victims. We pioneered the prevention and detection of credit card fraud and have been in the forefront of researching and discovering new and innovative ways to protect our customer accounts and personal information. Starting in 1989, we offered customers our Fraud Early Warning feature and in 1992, we introduced the Photocard to help deter unauthorized use of credit cards. Today, should our card members become victims of identify theft or fraud, we offer the most comprehensive and innovative free service—Citi Identity Theft Solutions—to help them. We have a dedicated team of specialists who immediately assist victims of identity theft and fraud, and help prevent victims' accounts and credit status from being affected. Our service streamlines and simplifies the entire process of re-establishing a victim's identity and credit history -- saving the customer significant time, money and inconvenience – even if the fraud happened on another credit card.

***Disclosure.*** We realize it can be difficult for credit card customers to understand the statements and other materials card issuers send out. Our goal

is to assure “no surprises” for our customers and to continually improve upon our practices. This means that all of our written materials must describe our products, clearly, accurately, and fairly. In fact, the effective and simpler to read disclosures cited by GAO in its September 2006 report on credit cards were all Citi disclosures.

We are also in the process of a major initiative to redesign our customer statements. We are currently using the redesigned statement with some two million of our customers and are working with them to understand how we might continue to improve the statements. Some key features of the current new statement include: color printing; clarified purchase section; enhanced display of rewards information; improved display of statement messages; prominent messaging for checks; laser high-quality charts/graphs/photographs; more flexibility with varying typefaces, type treatments and increased point size.

***Hardship assistance.*** Citi has put in place a number of customer assistance programs to help people in need. We know that keeping up with credit card bills can become difficult in times of sudden illness, job loss or other catastrophic event. For these temporary hardships we offer programs that can include full or partial deferments, APRs as low as 0%, and/or suspension of late and over-credit-limit fees for up to 12 months. And we also offer longer-term paydown programs that include fee waivers and reduced interest for five years, with the goal of helping the customer to pay off his balance by the end of the period.

## **Going Forward**

Mr. Chairman, we are working on a daily basis to enhance the products and services we provide our customers. At Citi, we put our customers first. We seek always to treat them fairly and communicate with them in a clear and understandable way. Above all, we want to make sure that our customer’s Citi Card is a convenience that can make managing their financial affairs as easy and stress free as possible. This job is never finished and we know that there is always room for improvement. I look forward to answering any questions that you may have.

# # #