

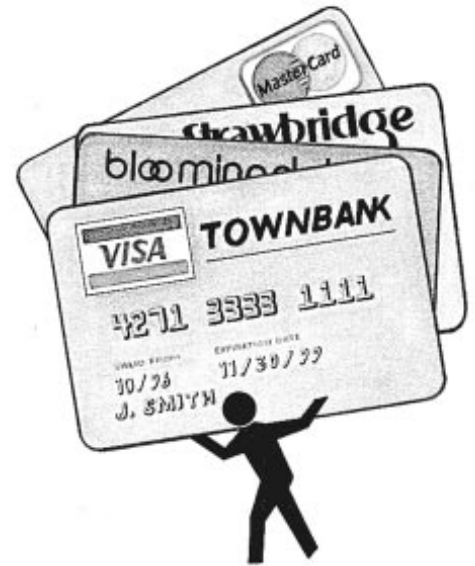
THE CQ Researcher

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Consumer Debt

Do Americans buy too much on credit?

In the weeks ahead, millions of consumers will use credit cards to charge their holiday gifts, possibly pushing consumer debt to unprecedented heights. The prospect of new debt levels disturbs some economists, who note that delinquent credit card accounts and personal bankruptcies already have reached historic highs. Others contend that personal indebtedness waxes and wanes over time, and that the cycle tends to be self-correcting. Some experts worry that in the years ahead, consumer debt will continue to rise as card issuers use sophisticated marketing techniques to put cards in the hands of students and consumers of limited means. They also predict that the increasing use of credit cards in such non-traditional venues as supermarkets and doctors' offices will further increase the debt load.



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EDITOR

Sandra Stencel

MANAGING EDITOR

Thomas J. Colin

ASSOCIATE EDITORS

Sarah M. Wagner
 Richard L. Worsnop

STAFF WRITERS

Charles S. Clark
 Mary H. Cooper
 Kenneth Jost

EDITORIAL ASSISTANT

Tonya Harris

PUBLISHED BY

Congressional Quarterly Inc.

CHAIRMAN

Andrew Barnes

VICE CHAIRMAN

Andrew P. Corty

EDITOR AND PUBLISHER

Neil Skene

EXECUTIVE EDITOR

Robert W. Merry

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Consumer Debt

BY RICHARD L. WORSNOP

THE ISSUES

Computer technician Dewey Paris of Pasadena, Texas, had six children, a failing marriage and \$18,000 in bills to various credit card companies.

"A lot of people assume that money problems cause the tension in a marriage," he says. "But in our marriage, the tension accelerated our spending on credit. I wouldn't stand my ground on some financial issues, because I was trying not to rock the boat."

When the couple divorced in 1993, Paris, then 43, agreed to accept full responsibility for their debts. About six months later, a Houston consumer-credit counseling firm helped arrange a five-year program to help him wipe the slate clean. Paris has whittled his debt to just \$6,000, and he plans to write his last check to the counseling firm sometime in 1998.

"At some point," Paris now says, "we have to make sacrifices to get in a better position financially. We can do that early on, by waiting until we have enough money for the things we want before actually buying them. Or, we can make much greater sacrifices later, after the credit damage has been done — which is what I'm in the process of doing now."

Millions of Americans have found themselves in the same leaky boat in recent years. For example, a survey issued Sept. 26 by Bankcard Holders of America, a nonprofit consumer advocacy group in McLean, Va., found that 53 percent of all credit card users questioned said they were in debt because of "overspending." Medical bills and college expenses each were cited by 11 percent of the respondents, while 9 percent blamed their indebtedness on a job layoff. Other reasons cited for outsized credit card balances included divorce costs,



home-repair bills and travel or vacation outlays.

More worrisome to experts who track U.S. credit trends are the rises to record levels of two key indicators. In the second quarter of 1996, for example, the credit card delinquency rate climbed to 3.66 percent, the highest number recorded for accounts delinquent at least 30 days since the American Bankers Association began monitoring such data in 1974.¹

In addition, personal bankruptcies are on track to surpass 1 million this year, for the first time ever. Indeed, some observers expect the total to approach 1.1 million. Job layoffs, medical calamities and other unforeseen emergencies account for much of the personal-bankruptcy total, as in past years. But ethicists as well as financial executives voice concern over a recent trend toward fraudulent bankruptcy filings by consumers seeking protection from their creditors without first passing through the delinquency phase. (See story, p. 1022.)

However, some experts feel that a more positive spin can be put on some of the supposedly alarming data. It is often remarked, for example, that the credit card delinquency rate is

3.66 percent, but that also means that more than 96 percent of credit card holders are current on their payments.

David Robertson, president of *The Nilson Report*, a credit card newsletter in Oxnard, Calif., argues that rising credit card indebtedness shows that consumers are simply taking advantage of opportunities to get cards.

"The opportunity for credit card issuers is terrific now," he says. "Sales volume generated on cards will continue to grow and grow, particularly because Americans have the opportunity to use the cards in non-traditional venues, such as supermarkets. Also, consumers are being rewarded for doing so. No one rewards them for writing a check, or for paying cash. But you can earn eight frequent-flyer miles if you buy something for \$8 with a credit card at a convenience store."

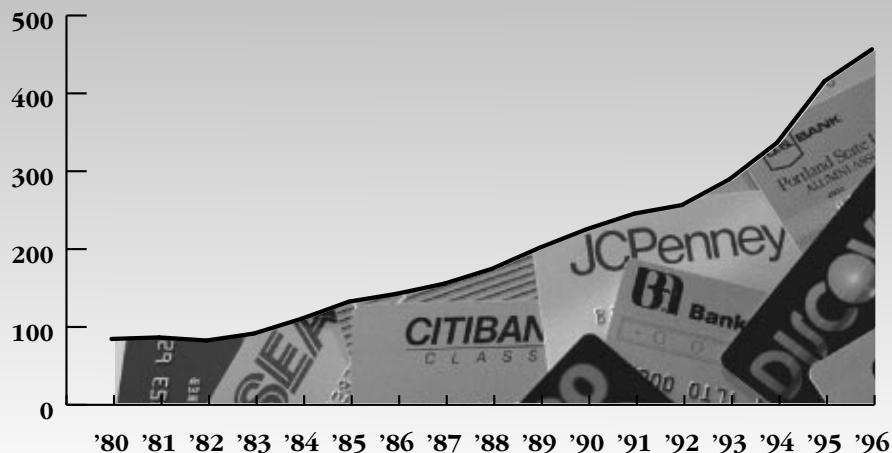
In Robertson's view, "There has never been a better time to have a credit card than today. Rates and benefits have never been more competitive. Rewards have never been more lucrative. That's because the industry is dominated by very large players who realize they have to spend money to make money. They realize that the name of the game is building the size of their portfolios, because the average profitability per account will diminish as they continue to offer rewards and other bells and whistles to keep their customers happy."

Skeptics retort that competition for market share inevitably will mean extending credit to unwary consumers who may assume more debt than they are able to repay, as reflected in delinquency figures. Another concern is the spread of credit-identity fraud. (See story, p. 1018.) Moreover, consumer advocacy groups and credit industry officials worry that American consumers are prone to indebtedness because many of them are poorly informed, at best, about buying on credit. (See story, p. 1020.)

Bankcard Debt Is Rising

American consumers owed nearly a half-billion dollars on bank-issued Visa and Mastercards as of July 1996, according to the consumer advocacy group Bankcard Holders of America. The total is more than five times the amount owed in 1980. *

in \$ millions



* Includes Visa and Mastercard but not American Express and Discover

Source: Bankcard Holders of America, Sept. 26, 1996

Few experts view the current level of consumer indebtedness as portending major trouble for the economy. But virtually all say that the situation bears close scrutiny. *

With the approach of the year-end holiday season, traditionally a peak period for credit purchases, here are some of the questions economists, consumer advocacy groups and others are asking about rising credit use:

Do record levels of credit card delinquencies and personal bankruptcies spell serious economic trouble for the nation?

According to James Medoff and Andrew Harless, the authors of a recent book on debt in America, mounting consumer indebtedness is troubling because

it “is mirrored by a fall in consumer savings. This is a major development. Not only is the economy in general worse off for neglecting its savings, but the individual consumer also finds himself or herself between the proverbial rock and a hard place. . . . Without savings, Americans must find other ways to bridge the gap between income and expenses when the times get rough. Unfortunately, it appears that more borrowing is fast becoming the solution to this problem.”²

Another worrisome side effect of mounting credit card debt, “especially at interest rates much higher than those applied to other types of debt, is the loss of regulatory control over credit,” Medoff and Harless write. “Under current conditions, the Federal Reserve Board cannot effect any reliable changes in the amount or timing of debt increases or credit use. Therefore, a situation exists in which billions of dollars flow into and out of the marketplace without regulation, checks or

balances. We can only imagine the long-term effects of this outlaw monetary system. But it is foolish to believe that it will have no effect on the typical American family.”³

But James Chessen, chief economist for the American Bankers Association, says that increasing credit card delinquencies “pose no serious threat” to the U.S. banking system. Testifying before a House committee in September, he asserted: “Banks’ exposure to losses per individual is very small, banks’ loan portfolios are well-diversified and the industry has record high levels of capital and reserves. In fact, if the banking industry wrote off every dollar of every non-performing loan — both consumer and business loans — there would still be \$23 billion in reserves left over, without even touching the \$365 billion in bank capital.”⁴

According to Chessen, much of the recent increase in consumer debt stems from “the rapid expansion in the number of places that accept credit cards as a means of payment.” The list includes supermarkets, movie theaters and even doctors’ offices, he noted, adding: “As consumers substitute credit cards for checks and cash, average balances tend to rise. But that does not necessarily mean that the capacity of individuals to meet their obligations has diminished.”⁵

Warren G. Heller, research director for Veribanc Inc., a Wakefield, Mass., firm that evaluates the condition of banks and other financial institutions, also feels the current level of credit card delinquency is tolerable. That’s because, he says, self-correcting mechanisms come into play when strains develop within the credit system.

“If the system is well set up, it has built-in feedbacks that counter adverse trends,” Heller says. “Today’s situation is a classic case of this. First, the delinquency trend developed. Then, as more and more people noticed it and discussed it, card issuers started tightening their credit standards. And very few of them have lost money on

* Household debt dropped sharply in September, according to the Federal Reserve, falling 2.7 percent to \$1.17 trillion. It was the first drop in consumer installment debt, mostly credit cards and auto loans, in more than three years.

a net-income basis.” In this connection, he notes that, “Losing money to card charge-offs is part and parcel of the business.”

At the same time, Heller is disturbed by individual instances of “pernicious” credit card abuse. For example, he cites the college student who used her 20 or so credit cards to support herself as an undergraduate. “She managed to stay current on her debt by robbing Peter to pay Paul,” he says. “But then, as she neared graduation, she went to the card issuer and said, in effect, ‘Look: I’m over my head, and I can’t take the hit that this will put on my credit record. My parents want to see me get out from under this, and they’re willing to put up 25 cents on the dollar to accomplish that. If you’re willing to accept the offer on condition my credit record stays clean, my Dad will write you a check.’”

The moral of the story, Heller says, is that “some cynical gaming” is going on among a minority of cardholders.

Larry Shimmerine, a consulting economist for MasterCard International, feels rising credit card delinquency rates reflect “a change in the way credit cards are used. For instance, many small-business people use their personal credit cards for business purposes rather than taking out more traditional types of loans. Then, when some of those businesses fail, their credit card debts are reported as delinquent.

“Ten years ago, the debts of a failed small business would have shown up as delinquencies or defaults on other kinds of loans. So to some extent, higher credit card delinquencies represent a shift from one form of borrowing to another. We really should be looking at all delinquencies [including home-equity and car loans], instead of looking at just one loan category

[credit cards]. When you do that, delinquency levels appear quite low.”

Ruth E. Susswein, executive director of Bankcard Holders of America, notes that credit card delinquencies are “at record levels, and that’s disturbing. But at the same time, we have to keep in mind that 96 percent of cardholders are not delinquent.” Personal bankruptcies, on the other hand, have reached “hazardous levels,” she says.

“It’s clear that issuers are responsible for marketing practices that encourage people to open new credit card accounts, incur more debt and make only minimal monthly payments to retire that debt. All these practices have contributed to the delinquency problems we now confront.”

— *Ruth E. Susswein*
executive director
Bankcard Holders of America

Susswein’s assessment is shared by newsletter publisher Robertson. “Particularly egregious is the rise in fraudulent bankruptcies,” he says. These typically involve a middle-income consumer with a half-dozen or more credit cards but no history of delinquency. Then, to the consternation of creditors, the consumer suddenly files for bankruptcy.

“What we have in America today is a situation where, unfortunately, consumers feel that personal bankruptcy is part of their menu of financial ser-

vices,” Robertson says. “And we have attorneys who, for a relatively modest fee, will help a consumer file for personal bankruptcy. These attorneys are advertising more aggressively all the time, making personal bankruptcy and the ease with which a consumer can file for it more readily apparent to the average person.”

Howard Hoemann, president of the International Credit Association, in St.

Louis, Mo., also worries about the prospect of 1 million-plus personal bankruptcies. But fraudulent filings account for only a fraction of the total, he notes. Many are prompted by unexpected calamity, such as job loss or major medical bills not covered by insurance. “You also have people who have been living quite well and paying their bills on time, but who suddenly realize they’re in over their head,” adds Hoemann. “At that point, they turn to bankruptcy as the easiest way to climb out of debt. And then there are flagrant abusers of credit. People who file for personal bankruptcy fall into all of those pockets.”

Hoemann is intrigued by data suggesting that the personal bankruptcy problem is “fairly evenly distributed throughout the country.” In the past, the number of filings

varied from region to region depending on economic conditions. Today, inexplicably, “There is no area of the country that has more bankruptcies proportionate to population than any other,” he says.

Have credit card companies been overzealous in seeking new customers?

Experts disagree on the root cause of mounting consumer card delinquency rates. Some say charge-happy cardholders are the main culprits,

Profile of a 'Typical' Consumer in Debt

Consumers who seek help in managing their finances typically earn \$24,000 a year and owe more than \$19,000 to 11 creditors, according to the nonprofit National Foundation for Consumer Credit. Foundation members maintain nearly 1,200 offices throughout the U.S. and Canada, under the name Consumer Credit Counseling Service.

| | |
|--|----------|
| Age | 35 |
| Sex | |
| Male | 50% |
| Female | 50% |
| Marital Status | |
| Single | 24% |
| Married | 52% |
| Separated, Divorced or Widowed | 24% |
| Number in the Family | 3.1 |
| Buying or Own Their Home | 40% |
| Average Monthly Gross Income | \$2,000 |
| Average Total Debt (excluding mortgage) | \$19,688 |
| Average Number of Creditors | 11 |
| Primary Cause of Financial Problems: | |
| Over Obligation — poor money management | 46% |
| Reduced income or unemployment | 26% |
| Divorce or separation | 11% |
| Medical | 9% |
| Other | 8% |

Source: National Foundation for Consumer Credit

while others indict card issuers for marketing their products to young people without credit experience and to adults with checkered credit histories. A third school of thought holds that the problem is far too complex to be solved by finger-pointing alone.

In Susswein's view, responsibility for today's high delinquency levels "is certainly shared" by consumers and issuers. "No doubt about it, we each have to be responsible for the debts we incur," she says. "At the same time, it's clear that issuers are responsible for marketing practices that encourage people to open new credit card accounts, incur more debt and make only minimal monthly payments to retire that debt. All these practices have contributed to the delinquency

problems we now confront."

Linda Sherry, editorial director for Consumer Action, an advocacy group in San Francisco, faults card issuers for targeting college students and so-called B and C credit risks — adults with mottled credit records. Beyond that, she is troubled that "easy credit is pushed on people across the board. For instance, every time you walk into a store, you're asked, 'Do you want a credit account opened right now, so you can get 10 percent off?' It's an enticement to take on more credit than you may require."

Sherry also looks askance at "the plethora of preapproved credit offers that arrive in the mail after people have been 'prescreened' by the credit card companies. Now, the person may have a won-

derful credit history, but that doesn't mean he or she needs the temptation that additional credit represents."

Shimmerine, the MasterCard economist, notes that issuers "have tried to make credit cards more available to a wider share of the population." He regards that as "a very healthy development, because it helps bring people into the mainstream of the country's economic life.

"But let's face it — the issuers might have gone too far. Some people are getting cards who shouldn't have them. However, this is the exception, not the rule. And the issuing banks are now tightening their lending standards in an effort to limit their losses."

Nonetheless, Shimmerine expects credit card issuers to continue exploring, though "very judiciously," the B and C credit risk market. "To the extent that the loss rates there are acceptable, the issuers will expand their promotion efforts. If the losses get too high, they'll cut back. It's an ongoing experiment whose outcome is unclear."

Robertson also foresees additional efforts to market cards to subprime credit risks. "They might be issued debit cards, not credit cards," he says, adding that the hazards of exploring the subprime market have been overstated. "People who are less well-off get a bad rap. They are considered high credit risks because they often are the first ones laid off in a downturn. In fact, people who are lower middle class tend to be very good at paying their bills. They're not the ones who are running off to bankruptcy court. It's the middle class and upper-middle-class folks who are doing that."

Some of the sharpest criticism of credit card marketing practices concerns the college market.⁶ Many consumer advocates argue that college

students aren't mature enough to handle a credit card responsibly. Ken McEldowney, executive director of Consumer Action, told a congressional subcommittee two years ago that the credit card industry "must shoulder the blame for . . . the aggressive ways in which it pushes credit card applications [on] students without balancing messages of easy credit with explanations of how to use credit wisely. . . . There is no justification for encouraging students to apply for and use credit lines that are beyond their ability to pay."⁷

Credit card industry representatives beg to differ. "College students may constitute a unique market, but they share many attributes with the credit card population as a whole," Paul Allen, senior vice president of Visa U.S.A. Inc., told the subcommittee. "They demand credit cards for the extraordinary utility and convenience they offer. They want credit cards for emergency uses in order to establish a credit history, and indeed to pay for books and tuition. . . . College students use credit cards mainly as a device to transact purchases, not to obtain an unsecured loan." (See "At Issue," p. 1025.)

Are Americans knowledgeable about handling credit?

Not surprisingly, credit card issuers and consumer advocates disagree on whether Americans are as savvy about the pitfalls of borrowing as they are about the benefits. Allen told the House subcommittee that Visa regards college students as adults, and treats them as such.

"Like the rest of us, college students need a credit card to make a purchase by mail, to order an airline ticket and to rent a car," Allen said. ". . . [C]ollege students are responsible consumers," he added. "They pay the balance in full one-half of the time, whereas the population at large carries a balance 60 percent of

the time. . . . Losses per college account typically are much less than half of the average non-college account."⁸

McEldowney retorted that many of the people who seek help from Consumer Action "are besieged by credit debts and are confused about how to handle them." Most callers, he said, "do not understand how to determine the true cost of credit or how much they really owe." For instance, a frequent comment

"We now have about a million people a year filing for personal bankruptcy and another million or so going into credit counseling. These are not uneducated, poor people — they're average Americans, by and large."

— *Tahira K. Hira*
professor of human development
and family studies
Iowa State University

is that the credit card issuer "must be making a mistake: I make the minimum payment every month, but the balance I owe hardly goes down."

For McEldowney, the lesson is this: "If so many adults lack a basic understanding of how to use credit wisely, how can we expect their children to do any better? We do not believe college students are miraculously better at handling credit than their elders."⁹

Shimmerine rates the credit knowledgeability of U.S. consumers as "very high, in the sense that most people

don't get themselves into deep trouble by overspending or overborrowing. It's true that credit cards may make it easier to overspend. Remember, though, that people also ran into serious debt problems before credit cards became widely available."

Michael E. Staten, director of Purdue University's Credit Research Center, believes consumers find it hard to comprehend, let alone adjust to, the rapidly evolving world of credit. "It's clear," he says, "that the sophistication of credit products over the last 10 years has increased faster than people's understanding of them, especially in terms of day-to-day budgeting. Today's financial instruments, whether they be credit cards or home-equity lines, are far more subject to abuse than they were a decade ago."

In Heller's opinion, Americans are more informed about credit than they used to be, but "a tremendous gap still exists between what they know and what they should know. A lot of people don't have a basic understanding of how interest works, so compound interest just eats them alive. Something like 80 percent of all cardholders use them as a credit mechanism rather than as a payment mechanism."

Tahira K. Hira, a professor of human development and family studies at Iowa State University, holds similar views. "The difference between the credit we had in the past and the credit that we have today is really the most crucial point," she says. "People today are less informed about the cost of using credit cards and not paying off balances in full each month."

Before the credit card era, Hira notes, most credit purchases involved installment loans, payable in fixed monthly amounts of principal and interest over a prearranged period.

The concept was easy to grasp, even by poorly educated consumers. But the open-ended credit available through credit cards has led even affluent consumers astray, Hira says.

“We now have about a million people a year filing for personal bankruptcy and another million or so going into credit counseling,” Hira says. “These are not uneducated, poor people — they’re average Americans, by and large. Research shows that most of them are educated, and that 90 percent are employed. In fact, data show that the proportion of people with serious credit problems who are in managerial and professional occupations is higher today than it was 15 years ago. So, the problem isn’t lack of formal education; it’s inadequate knowledge of a specific area of personal finance.”

Consumers aren’t the only ones in need of a brush-up course on credit, says Consumer Action’s Sherry. Experience has convinced her that, “The people who man the customer-service lines at credit card banks and finance companies don’t know very much, either.” She recounts a recent visit to a Radio Shack store to pick up a copy of the disclosure form for the company’s credit card. The clerk told her he had no such forms. “I said, ‘Sorry, but by law you’ve got to have them.’ So then he went to the manager, who told me the disclosure information was on the back of the credit card application, which I couldn’t take out of the store. I said, ‘I don’t think that’s correct. I have the legal right to take this home and read it at my leisure.’ Finally, he tore the disclosure material off the application form and handed it to me.”

In general, Sherry says, “People are just very ill-informed on this particular subject. Even though I’ve seen it said that consumers are getting more savvy about credit cards, such as switching to the ones with the lowest interest rates, I still question whether they really know the ins and outs of responsible credit use.”

According to Hoemann, educating young people about money management is mainly a parental responsibility. “Mothers and fathers need to recognize that personal financial skills learned at home will prepare their children for adult life. It’s an old story. We teach our kids how to earn money, but not how to spend it.” ■

BACKGROUND

The Biblical Word

The biblical injunction against usury helped shape modern Western views about credit. In biblical times, usury referred to charging any amount of interest on a loan, and it was branded a mortal sin, the harshest censure the church could deliver. The medieval poet Dante gave expression to this attitude in *The Divine Comedy*, which relegates usurers to one of the hottest circles of Hell.

During the Middle Ages, however, pressure for credit overwhelmed the church’s efforts to restrain it. Merchants, lords and kings required loans, and their needs were met one way or another. The church itself, as one of Europe’s richest institutions, entered into financial deals with the great Italian banking families — lending, borrowing and entangling itself in a practice it publicly condemned.

A turning point came in the latter half of the 16th century, when non-profit pawnshops, jointly managed by clergymen and municipal officials, were established to benefit the poor. To cover their operating costs, papal sanction was obtained for charging low rates of interest on loans. This was a significant break in the rigid definition of usury as the taking of any interest for the loan of money. Theologians

reasoned that the lender should be compensated not only for expenses but also for the cost of capital — the return that could have been earned by placing the funds in investments of similar risk. In effect, usury was redefined as the taking of excessive interest, rather than the taking of any interest.

Henry VII decided to set interest ceilings in England, capping the top rate at 10 percent; by 1714 the figure had been halved. The 13 American Colonies, except for New Hampshire, also set their own maximum interest rates. But they made them just enough higher than 5 percent to attract British investment in the Colonies.

Borrowing was an accepted fact of life in Colonial America, not just for the merchants and importers who relied heavily on credit from their British suppliers, but for their customers as well. Retail credit was available to farmers on a crop-to-crop basis, with the finance charge determined by the price the farmer eventually got for his crop. Thomas Jefferson, heavily in debt himself, wrote in 1787: “The maxim of buying nothing without the money in our pocket to pay for it would make of our country one of the happiest on Earth. . . . I look forward to the abolition of all credit as the only other remedy.”¹⁰ Yet even such an apostle of thrift as Benjamin Franklin is known to have extended credit liberally as a printer and bookseller.

A legal market for installment loans was effectively barred, however, by the usury laws that America had inherited from Britain, which prohibited moneylending at economically feasible rates. In 1834, more than 200 Boston businessmen signed a petition urging the repeal of Massachusetts usury laws, citing the trading difficulties they caused.

Many states deliberately weakened their usury laws, enabling high interest rates to prevail despite the strong opposition of Western and Southern farmers who, being chronic debtors,

Continued from p. 1018

Chronology

1910s-1920s

Banks and other commercial institutions begin lending to consumers in the years before and after World War I.

1910

The Fidelity Savings and Trust Company of Norfolk, Va., becomes the nation's first major commercial business devoted solely to personal lending.

1919

General Motors Corp. sets up its own financing agency in 1919. Ford Motor Co. follows suit in 1928.

1928

New York's National City Bank becomes the first major commercial bank to organize a personal loan department.

1940s *Consumer lending is tightly regulated during World War II but rebounds strongly with the return of peace.*

1941

President Franklin D. Roosevelt issues an executive order establishing controls over consumer credit, such as minimum down payments. The Federal Reserve Board administers the controls throughout World War II.

Dec. 1, 1946

The Fed lifts credit controls on everything except a dozen consumer durables, including cars.

1949

The Diners' Club card, the first third-party, universal credit card, is introduced.

1950s-1960s

Credit card use explodes, giving rise to concern that consumers are ill-informed about the hazards of revolving debt.

1958

American Express and Carte Blanche are introduced.

1966

Several large bank credit departments are combined into two national credit card companies, BankAmericard and the Interbank Card Association (issuer of MasterCard Charge cards).

1968

President Lyndon B. Johnson signs the Consumer Credit Protection Act, which requires creditors to give consumers printed information about credit matters.

1970s *Consumer borrowing continues to grow, as do efforts to protect consumers from questionable lending practices.*

1970

President Richard M. Nixon signs legislation restricting unsolicited credit cards and limiting to \$50 cardholders' liability for unauthorized use of their card.

1974

Nixon signs a measure amending the 1970 law to protect consumers against inaccurate and unfair credit billing and credit card practices and to ban discrimination on the basis of gender or marital status from any credit transaction.

1976

BankAmericard changes its name

to Visa. Four years later, MasterCard becomes MasterCard.

1977

President Jimmy Carter signs legislation protecting consumers from harassment by debt collectors.

1980s-1990s

Banking deregulation fuels still more consumer lending.

1982

A banking-deregulation law signed by President Ronald Reagan frees traditional deposit-taking institutions to compete head-on with money-market funds. As a result, banks across the country are able to attract depositors by offering high interest on deposits and then passing those high rates on to borrowers — including holders of bank-issued credit cards.

1988

Reagan signs legislation requiring direct-mail solicitations for credit cards to clearly show such information as annual percentage interest rates, annual fees and minimum finance charges.

Jan. 6, 1996

President Clinton signs the Intelligence Authorization Act, giving the FBI access to credit-report information without a court order.

Sept. 30, 1996

Clinton signs legislation making it easier for consumers to find out if information in their credit report has been used against them; to contest incorrect report material; and to withhold their names from marketing lists sold to credit card issuers.

Gangs of 'Very, Very Slick' Con Men . . .

Attorney Mari J. Frank of Laguna Niguel, Calif., received a chilling phone call in August. "How come you haven't made any payments on your \$11,000 Toys R Us bill?" someone from the Bank of New York (BNY) asked.

Frank thought it was a crank call. "Who would ever spend \$11,000 at Toys R Us?" she replied. The bank representative explained, "These are charges on a Toys R Us credit card from Bank of New York that was issued to you last October." "I went, 'Oh, my God!'" Frank says. "At that point, both of us realized it was fraud."

Frank was luckier than most victims of credit-identity fraud, in which a person's name and Social Security number are used by crooks to obtain fraudulent credit cards. Her legal training had taught her where to find help, and in two days she had located the thief.

The culprit turned out to be a woman married to a policeman in Ventura, Calif., about a four-hour drive from Laguna Niguel. Posing as a private investigator, the woman, Tracey Lloyd, had gained access to Frank's credit report at Equifax Credit Information Services, one of the nation's three main credit bureaus, through a small service company with access to Equifax's database.¹ She had also visited Frank's law office, where she filched several business cards from a tray on the receptionist's desk. These enabled Lloyd to pose as an attorney-mediator when she sought to open new credit lines in Frank's name.

Federal law limits losses on fraudulent credit card debt to \$50 per card. But that is often small consolation to victims. They must spend untold hours trying to determine the extent of their victimization: How many credit lines did the thief open in the victim's name? How much was charged,

and where? Answers may not be forthcoming for months or years, if ever.

"Banks are quite a bit at fault," Frank says, because "there's really no punishment for issuing credit so haphazardly that it causes these problems."

Experts blame much credit-identity fraud on gangs of Nigerian con artists. After entering the United States on student visas, they say, the Nigerians hone their skills at "academies" run by their countrymen. "They are the pre-eminent credit card fraudsters in the world," says David Robertson, president of *The Nilson Report*, a credit card newsletter published in Oxnard, Calif. "They are very, very slick."

To carry out their schemes, according to *Forbes*, credit-identity thieves only need to "access one of the tens of thousands of computer terminals . . . wired to national credit data banks. Virtually every bank, insurance company, mortgage broker, stockbroker, auto dealer and department store in the country is on-line. The thieves can then punch up practically anyone's credit information — Social Security number, address and other personal data — including, of course, credit status. Then they're off to the races."²

In August, Federal Trade Commission staffers examined one such scam. It involved a man who went to a car dealer to test-drive a truck. The man had fake documents identifying himself as 'John Smith,' but he claimed to have forgotten his Social Security number. The salesman obligingly took the thief into his office, where he called up several John Smiths on his computer screen, each accompanied by a Social Security number. Randomly claiming one of the names as his own, the thief obtained a printout of the data about the man, who turned out to be a general contractor.

Continued from p. 1016

wanted "cheap money." The agrarian movement in American politics, especially during the second half of the 19th century, advocated low interest rates along with the free coinage of silver and the use of greenbacks as legal tender. The financial centers of the East, in contrast, favored the gold standard to maintain the value of currency and keep inflation down.

Rise of Consumer Credit

The industrialization and urbanization of America wrought signifi-

cant changes in the consumer credit business. A class of wage earners emerged who had enough money left after buying family necessities to enter into credit transactions. In many states, so-called salary loans were made by assigning part of the borrower's earnings to the repayment of his debt. Lenders were virtually assured of repayment, since employers generally were firm believers in the sanctity of contracts and were apt to fire a worker who showed irresponsibility in his financial affairs.

Salary loans tended to plunge borrowers into debt for extended periods. Meanwhile, the creditor could claim exemption from the usury laws on the ground that he was not lending money

but simply purchasing a salary, as one might purchase any other commodity.

The city worker's regular flow of wages, as compared with the farmer's or farm laborer's seasonal income, made possible regular payments on an installment purchase. Other new forces also were at work, as historian Daniel J. Boorstin has noted: "Industry was using newly improved metals (especially iron and steel) to turn out millions of durable objects, which nearly every citizen could imagine owning. Since a sewing machine could usually be reconditioned for the secondhand market, it did not seem imprudent for the retailer to allow a customer to use the machine while he paid for it."¹¹

... Turn Credit Card Fraud Into Big Profits

Thus armed, the bogus Smith “began applying for credit cards, telling the credit card companies that his actual address was his ‘new’ address and that [the legitimate John] Smith’s address was his ‘old’ address,” according to *BNA’s Banking Report*. “In this manner, the thief obtained more than \$50,000 in goods and services charged in Smith’s name, in addition to a [new] general contractor’s license. Tracking down the discrepancies took [the real] Smith six months; correcting most of the discrepancies took a year.”³

Robertson expects credit-identity fraud to persist, viewing it as an ongoing game of cat-and-mouse between criminals and the credit industry. “The criminals exploit an Achilles’ heel, the industry patches it up and then the criminals locate another one.” But the situation has improved somewhat, he says: “It used to be the industry was one step behind these guys, but now it’s trying to stay one step ahead.”

Newspaper and magazine articles on credit identity fraud have made the public more aware of the problem, as has the CBS-TV program “60 Minutes.” But increased knowledge has not brought peace of mind: “Unfortunately, we’re all going to be looking over our shoulder too much as we enter the next century.”

Although credit-identity fraud may be impossible to stamp out, some precautions can be taken. Frank recommends that consumers write a letter to each of the three nationwide credit bureaus asking that they:

- “Provide me with a copy of my current credit report”;
- “Remove my name from any and all mailing lists and promotions to any entity”;
- “Do not change my mailing address or phone number without verification from me in writing”; and

- “Do not provide my credit report to anyone without my prior permission by phone, fax, or writing.”

Frank says she’s still “furious at the banks.” In her view, they “just recoup their losses from credit-identity fraud by charging higher interest rates and higher annual fees. They consider it a cost of doing business, just like litigation is. It’s a write-off for them.”

At the personal level, moreover, Frank is consumed by uncertainty. “I still don’t know what else [Lloyd] did. I don’t know if she took money from people, saying she’s an attorney, and then skipped out on them. I don’t know if she did anything that will get me in trouble with the Internal Revenue Service. I don’t know if she went to a casino or a racetrack, won some money and then put it on my Social Security number. You see what I’m saying? All kinds of insidious things could still happen.”

Lloyd pleaded guilty in October to six counts of felony fraud. Sentencing is scheduled for Nov. 19. In the meantime, Frank is required to prepare a victim-impact statement.

“What’s scary is that Lloyd gets a copy of it,” Frank says. “Knowing that makes the thing hard to write. I’m worried that if I describe my fears, and my kids’ fears, she may get ideas about retaliating after she leaves prison.”

¹The three nationwide credit bureaus are Equifax, Atlanta, Ga.; Experian Information Solutions Inc. (formerly TRW Information Systems and Services), Orange, Calif., and Trans Union Corp., Chicago, Ill.

²Brigid McMenamin, “Invasion of the Credit Snatchers,” *Forbes*, Aug. 26, 1996, p. 256.

³“FTC Hears Testimony on ‘Credit Theft,’ Suggestions for Ways to Prevent Fraud,” *BNA’s Banking Report*, Aug. 26, 1996, p. 299.

Salary loans were generally very small — \$10 to \$40. The size of the sums involved forced lenders to charge high rates in order to cover their overhead and make a profit. An investigative study published by the Russell Sage Foundation in 1908 found that the average salary loan office in New York had only \$10,000 out on loan but charged interest at an annual rate of 120-240 percent, or more. These rates were often accompanied by heavy-handed collection practices. A favorite tactic of loan offices was to send a female “bawlerout” to the delinquent debtor’s workplace, where he would be loudly denounced in front of his colleagues as a liar and a cheat.

The flourishing loan offices, which

by 1900 were operating in most large cities, bore witness to the need for government regulation of small installment loans. Many of the borrowers were genteel but impoverished civil servants and members of the middle class who were unable to live on their meager incomes, especially when faced with medical bills or funeral expenses. At that time, public opinion was almost as antagonistic toward the borrowers as toward the loan sharks who exploited them.

In addition to fighting the loan sharks, philanthropic organizations led by the Sage Foundation sought to convince the public that there was a pressing need for legal sources of consumer credit. Their efforts to at-

tract responsible capital into the consumer finance field finally resulted in the drafting of a model Uniform Small Loan Act, eventually adopted by most states. To encourage lenders to make small loans, it allowed interest rates in excess of the limits set by usury laws.

Credit unions, which have become a leading source of consumer credit, began operating in 1909. Financial institutions entered the field much later. In 1928, New York’s National City Bank became the first major commercial bank to organize a personal loan department.

It was the automobile that transformed installment buying into a dominant American institution. “Until automobiles came off the assembly lines

Consumer Advocates Urge School Courses on Credit Skills

Money-management skills are vital, but they get scant attention in the nation's schools, says consumer advocate Ruth E. Susswein. As the executive director of Bankcard Holders of America, in McLean, Va., she advocates a one-year course in personal finance in junior high school, since "college-bound high school students already are being targeted by credit card issuers. No matter what students major in, they will need information on personal finance. And they are not formally getting it anywhere now."

But schools must have help with the credit-education burden, Susswein says. "It's the parents' responsibility to pass that kind of information on to their children. Also, it's up to individuals to educate themselves, since this clearly affects them. And credit issuers bear some responsibility for educating cardholders, since they stand to gain by doing so."

Indeed, the credit industry already is involved in education programs aimed at the school-age population. Perhaps the best-known program is "Train the Trainers," run by the International Credit Association (ICA), whose members are credit executives.

"It's a two-day course in which high school teachers learn the fundamentals of consumer credit," says ICA President Howard Hoemann. "Those teachers pass on their knowledge to other teachers, who then deliver it to their students. We estimate that 400,000 high school students are trained each year through the program. And other organizations are doing similar things."

The National Foundation for Consumer Credit (NFCC) also promotes the wise use of credit. In 1995, the foundation's more than 1,100 member offices nationwide "conducted 43,778 live consumer education programs for more than 3.5 million people in an effort to help families prevent troubles associated with problem debt and to stress the importance of money management," the NFCC says. "Educational programs are conducted for a wide variety of organizations, including employee assistance programs, civic associations, schools and church groups."

Although Susswein regards "Train the Trainers" as a

"terrific program," she notes that school districts generally regard consumer credit as an elective subject, at best. "Sometimes the information is incorporated into a business or consumer economics class. Individual school districts make those decisions. So, credit instruction is all voluntary and hit-and-miss at this point."

Recent research by Tahira K. Hira, a professor of human development and family studies at Iowa State University, raised the possibility that school-based credit education does little to change students' thinking. In a survey of 2,000 randomly selected Iowans, Hira asked: "Looking at your own money-management behavior, who had the most important influence on you?"

"I started with a hypothesis that younger people would say they were influenced primarily by outside forces, such as the media, peers and schools. I also expected the older respondents to say, 'My parents.'"

"But to my great surprise, respondents in all age groups cited their parents as the primary source of their money-management knowledge. Often the knowledge was imparted through childrens' observation of their parents' behavior. Fewer than 10 percent of my respondents said schools had taught them most of what they knew about credit."

Nonetheless, Hira strongly believes that schools should teach children how to manage their own money. "It's not something that you can learn just by observing others. I say that because I see college students who write checks when they have blank ones in the checkbook but no money in the bank, and they don't understand why the checks bounce."

"It's easy to assume people know simple things like how to write a check," said Tonia Izzard, an assistant vice president at First National Bank of Platteville, Wis. "The perception is this is just something you know. Someone has to teach children how to tie their shoes. Financial services are the same way."¹

¹ Quoted in "Combating Financial Illiteracy," *Northwestern Financial Review*, Aug. 24, 1996, p. 15

by the millions," wrote Boorstin, "there was no other object of universal use so costly as to require a scheme for time payments."¹² New techniques of buying and financing developed even more rapidly than the methods of automobile production, and provided both a mass market for cars and a remarkable increase in the volume of consumer credit.

General Motors Corp. set up its own

financing agency in 1919, and Ford Motor Co. followed suit in 1928. (Henry Ford initially opposed time-payment plans, favoring instead the old-fashioned virtues of thrift and prudence.) As the auto industry became concentrated in a handful of companies, the risk that a manufacturer would go out of business before a car was paid for virtually disappeared.

The Soldiers' and Sailors' Civil Relief

Act, which freed members of the armed forces from the need to make installment payments during World War II, led to fears among lenders that millions might interrupt their payments or turn in their installment-purchased cars. But few did, and this established installment buying even more firmly after the war. From 1919 to 1963, General Motors' Time Payment Plan financed nearly 50 million car buyers.

Credit Cards

The postwar credit boom grew out of consumer and business adaptation to a changing way of life. As Americans' expectations for the future rose, so did their willingness to incur debt.

Young married couples are heavy users of credit, and the number of young people was growing faster than any other age group. With home ownership came asset ownership — of stoves, refrigerators and television sets. And as more women moved into the labor force and the desire for leisure time increased, there was added demand for labor-saving devices such as vacuum cleaners, dishwashers and clothes dryers.

Young adults of the postwar period, with higher, more stable incomes than their parents had enjoyed at the same age, had few qualms about using credit. The credit industry responded by creating new lending instruments. Competing gasoline companies and large retailers not only offered credit but also made it portable and convenient by introducing the credit card. This was soon transformed into an all-purpose credit device. Starting in 1949 the Diners' Club, followed by Carte Blanche and American Express, made a profitable business out of supplying credit cards and assuming the risk on credit card accounts.

New York's Franklin National Bank offered the first bank credit card in 1951. In the late 1960s, in order to convince retailers that enough consumers held the cards to make it worthwhile to join their plan, banks began mailing unsolicited credit cards. By then, the wallet-sized squares of embossed plastic had worked a revolution in consumer finance, as Boorstin observed: "Credit, once closely tied to the character, honor and reputation of a particular

person, one of a man's most precious possessions, was becoming a flimsy, plasticized, universal gadget."¹⁵

Action by Congress

Concern about mounting consumer indebtedness prompted demands in the 1960s for protective legislation. Capping almost a decade of debate on the issue,

Legislation signed by President Jimmy Carter on Sept. 8, 1977, established a nationwide system of controls for collection agencies.

Before the law was enacted, debtors were frequently harassed by late-night phone calls, deceived by collectors posing as government agents and humiliated about their debt in front of neighbors and co-workers.

Congress in 1968 enacted the Consumer Credit Protection Act to help consumers make informed decisions when they obtained credit.

Known as the "truth-in-lending" law, it was one of the toughest and most far-reaching consumer bills passed by Congress since the securities disclosure laws of the 1930s. It required all buyers to be told the cost of loans and installment purchase plans in terms of an annual percentage rate calculated in a specified way. The resulting uniformity was designed to let

consumers make valid cost comparisons between the lending rates or installment plans of different stores or lending institutions, just as they could compare the prices of similar products manufactured by different companies.

In 1970, Congress banned the issuance of unsolicited credit cards and limited to \$50 cardholders' maximum liability for unauthorized use of their card. The same law regulated, for the first time, consumer reporting agencies. Further amendments in 1974 (the Fair Credit Reporting Act) sought to protect consumers against inaccurate and unfair credit-billing and credit card practices, and also banned discrimination in any credit transaction on the basis of gender or marital status.

Three years later, Congress turned its attention to abuses committed by agencies that collected other companies' overdue bills. Legislation signed by President Jimmy Carter on Sept. 8, 1977, established a nationwide system of controls for collection agencies. (Excluded from coverage were department stores, banks and other businesses that collected their own debts.) Before the law was enacted, debtors were frequently harassed by late-night phone calls, deceived by collectors posing as government agents and humiliated about their debt in front of neighbors and co-workers.

Laws to combat debt-collection abuse already were on the statute books of 37 states and the District of Columbia in 1977. However, supporters of a federal law argued that reliance on state laws had left about 80 million people wholly or partially vulnerable to collector abuse. Furthermore, increasing use of interstate phone lines was said to have undermined state-operated control programs.

A banking-deregulation law enacted in 1982 freed traditional deposit-taking institutions to compete head-on with money-market funds. As

Are 'Instant' Bankruptcies the Latest Trend?

To a considerable extent, the English essayist and critic Charles Lamb reflected society's attitudes when he declared in an 1829 letter: "It has long been my deliberate judgment that all bankrupts, of whatsoever denomination, civil or religious, ought to be hanged."

Fast-forward to *The Wall Street Journal* of Aug. 28, 1996, and a story topped by a headline that sums up an increasingly common contemporary approach to personal finance: "Go Directly to Bankruptcy. Do Not Pass Delinquency."

For creditors, it's alarming enough that personal bankruptcies are expected to exceed 1 million in 1996 for the first time ever. Even more disturbing is the apparent willingness of some debtors to walk away from their financial obligations without any pangs of conscience.

"Historically, the pattern for personal bankruptcy has been more of a migration from a 30-day delinquency to a 180-day delinquency, which is [an accounting] charge-off," said Scott Calhoun, deputy comptroller for risk evaluation at the Office of the Comptroller of the Currency. But now, he says, increasing numbers of consumers are going directly from being solvent one day to filing for bankruptcy the next, without showing any of the traditional signals of imminent default.¹

The modern U.S. bankruptcy system dates from the 1978 Bankruptcy Reform Act, which overhauled a structure that had remained virtually unchanged for 40 years. The measure gave individual debtors two bankruptcy options. They could file for "straight bankruptcy" under Chapter 7, which required them to liquidate their property in exchange for discharge of all their unsecured debts. In other words, they would be granted a "fresh start," free of all prior debt. The second option was filing under Chapter 13, which merely postpones repayment of all or part of the debt, according to a court-approved repayment plan extending over several years. Such arrangements do not require any property to be liquidated and distributed to creditors. The 1978 law also established a new, independent bankruptcy court system to be operated by judges appointed by the president for 14-year terms.

Critics blamed the changes for the sudden rise in bankruptcy filings, from fewer than 200,000 to 450,000 a year, which occurred after the law took effect on Oct. 1, 1979. They complained that consumers were taking undue advantage of the law to avoid paying their debts, in some

cases going on credit-financed buying sprees just days before filing for bankruptcy.

The Supreme Court, in any event, declared the 1978 law unconstitutional in 1982. It held that Congress had given judges too much power. Two years later, Congress approved legislation that curtailed the power of bankruptcy judges but otherwise left the earlier statute largely intact.

Ten more years were to pass before Congress again made major changes in the bankruptcy system. Legislation signed by President Clinton on Oct. 26, 1994:

- Eliminated delays in bankruptcy cases by streamlining the judicial process;
- Made it easier for individual debtors to file for Chapter 13;
- Cleared the way for payment of income taxes with a credit card;
- Made it more difficult for spouses to declare bankruptcy to avoid alimony and child-support payments; and
- Authorized formation of a National Bankruptcy Review Commission to review and recommend changes in the bankruptcy code.

"Regrettably, the laws on bankruptcy won't change before the end of 1997, if in fact they ever do," says David Robertson, president of *The Nilson Report*, a credit card newsletter. "The bankruptcy commission won't report to Congress until the end of 1997, and its proposals obviously will become a political hot potato. No one in the industry is expecting anything to happen in terms of relief at the government level."

What the industry can do, Robertson says, is "remind consumers that if they do file for bankruptcy, their credit will be sullied. It will be difficult to get a home loan or a car loan. Also, I think you'll find more information-sharing on the part of card issuers.

"For instance, when Alpha Bank compares notes with Beta Bank, they may find that an individual withdrew a lot of cash from his ATM machine and bought a plane ticket to a nice tropical island later that day. They may also find that he spent all the rest of the cash advance on the island, and declared personal bankruptcy soon after returning home. Creditors are going to start putting two and two together and fighting that sort of thing."

¹ Quoted in *The Wall Street Journal*, Aug. 28, 1996, p. C1.

a result, banks across the country were able to attract depositors by offering high interest on deposits and then passing those high rates on to borrowers — including the holders of bank-issued credit cards.

"The banks learned an important lesson during this period: Consumers

continue to incur debt no matter what the rate of interest charged," noted Medoff and Harless. "Thus, even when the federal funds rate (the interest rate that banks charge one another for overnight loans) fell from more than 14 percent to less than 9 percent between June and December of 1982,

the interest rate on credit cards remained high. Moreover, between 1980 and 1992, as the federal funds rate fell from 13.4 percent to 3.5 percent, the average credit card interest rate rose from 17.3 percent to 17.8 percent. The ability of banks to borrow money at a fairly low interest rate and to relend

it at a high interest rate further spurred the lenders' foray into the high-risk [consumer credit] markets."¹⁴

To enhance consumer awareness of credit card borrowing costs, Congress in 1988 mandated the disclosure of certain data. All direct-mail solicitations for credit cards, for example, had to clearly show annual interest rates and fees, the length of the grace period before interest begins to accrue and the minimum finance charges for cash advances and late payments.

A separate credit disclosure bill that cleared Congress in 1988 applied to home-equity loans, which had been made possible by sweeping tax-law changes approved two years earlier. Such loans proved immensely popular, since they were the only form of consumer borrowing on which interest payments remained fully tax-deductible.*

Most home-equity loans were open-ended, meaning they provided a line of credit against which individuals could borrow, often merely by writing a check. However, banks were not subject in most states to disclosure requirements for such loans, and they were free to alter the terms of loans — often to the detriment of borrowers — after they were made. The new law barred banks and other lenders from changing the terms of loans once they were established, except that interest rates could be variable, as on some conventional mortgages.

The fiscal 1996 intelligence authorization bill signed early this year by President Clinton contained a controversial provision enabling the FBI to obtain credit reports for counterintelligence investigations. Specifically, the measure allowed the bureau to obtain a court order to gain access to consumer credit files and find the names and addresses of the financial institutions where an individual had an account. The law also provided that the FBI would have to pay

the credit reporting agency for the information it obtained and that all parties would face civil penalties if the FBI probe were disclosed.

"It is anticipated in Washington that the new law will be used in investigating suspected terrorists or potential terrorists," noted *Credit Card Management*, a monthly trade publication. "The number of requests is expected to be small."¹⁵ ■

CURRENT SITUATION

Credit Bureau Law

A decidedly consumer-friendly credit-report law cleared Congress on Sept. 30, the final day of fiscal 1996. Enacted as Title II of the omnibus fiscal 1997 appropriations bill, the measure was designed to make it easier for consumers to examine and correct information in their credit bureau files.¹⁶

Among other provisions, the new law required credit bureaus to make their reports more intelligible and to include in them all the material in an individual's file. However, the bureaus were allowed to keep confidential any credit "scores" or similar data used to assess a consumer's creditworthiness.

The law also required the credit bureaus to:

- Set up toll-free numbers for consumers and make sure that callers are put in touch with a bureau employee, not just a recorded message.

- Investigate complaints within 30 days and inform the complainant of what happened as a result. Existing law also mandates such probes, but sets no deadline for their completion.

- Notify consumers of their right to have their names removed from mar-

keting lists used by credit card issuers to prescreen potential customers.

- Inform consumers of their rights when an adverse action is taken against them. In such cases, consumers are entitled to a free copy of the report that triggered the action. They also are free to challenge any information contained in it.

- Take reasonable steps to ensure that erroneous information does not reappear in a consumer's file after it has been removed.

The law will not take effect until October 1997, giving the credit industry time to make any needed adjustments. Consumer groups praised the new safeguards, and industry representatives voiced no strong objections. "A lot of what it entails is what we had already adopted as an industry," said Norman Magnuson, public affairs director of Associated Credit Bureaus, a Washington-based trade group. "We don't see any problems with it."¹⁷

Indeed, credit card marketers had begun addressing consumers' privacy concerns well before the law cleared Congress. Last spring, for example, MBNA America Bank of Wilmington, Del., told prospects for its Platinum Plus card: "To help protect your privacy, we will not sell your name to other companies." And MasterCard International published a new brochure on credit privacy: "In the Driver's Seat: Steering your Financial and Consumer Information in the Right Direction."

Credit Card War

Meanwhile, though, fierce competition among credit card issuers assures that privacy will remain a volatile issue. "Marketing is getting much more aggressive, and credit card marketing is probably one of the most information-intensive forms of marketing you can find," says Martin E. Abrams, director of information policy

* Under the Tax Reform Act of 1986, deductions for interest on credit cards and other consumer purchases were phased out over five years, beginning in 1988.

and privacy at Experian Information Solutions Inc., one of the nation's three main credit bureaus.

The aggressiveness often takes the form of wooing ever-smaller segments of the consumer population. Just a few years ago, a typical mass mailing to credit card prospects comprised about 30 million pieces, each containing one of two or three different sales pitches. Today's mailings tend to be smaller and more tightly focused: 3 million pieces, say, with up to 25 "sells," each targeting a specific consumer subgroup.

Before long, even this approach may seem scattershot. The time is coming, says Robertson of *The Nilson Report*, when card issuers will be able to prepare a mass mailing that's individually tailored to each recipient: "Not one that's aimed at everybody in your ZIP code, but just at you."

Such customizing of sales appeals is called database marketing, which relies on detailed analysis of credit and demographic data culled from numerous sources. The same technique is expected to help creditors do a better job of identifying the brightest prospects in the subprime credit market. Since most borrowers with top-notch credit ratings already have at least one installment loan and one or more credit cards, lenders have turned their attention to the less credit-worthy B and C groups.

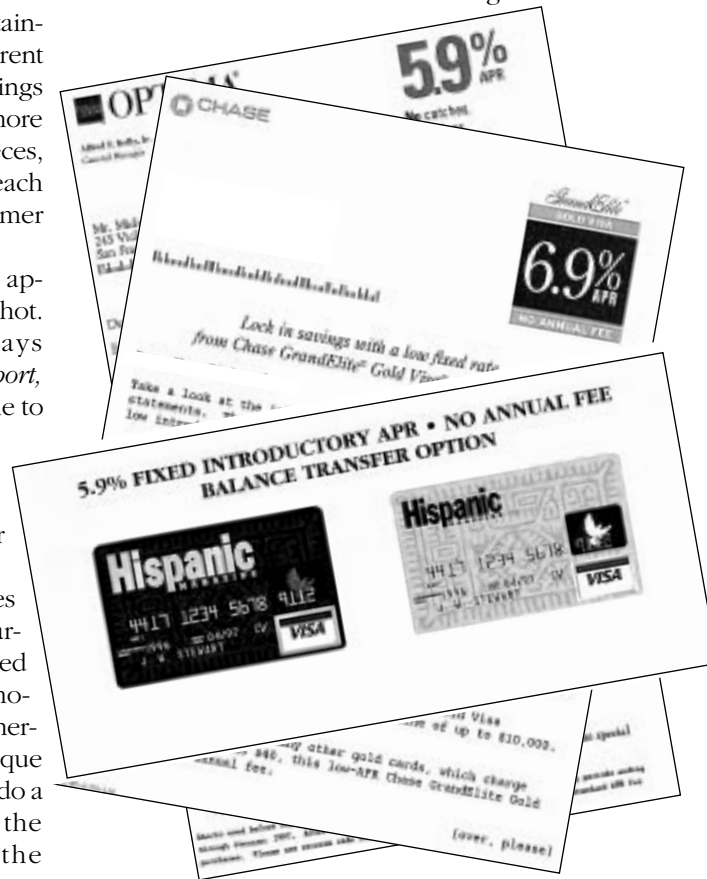
To some extent, they were inspired by the performance of Fingerhut Cos., the consumer catalog marketing firm in Minnetonka, Minn. Fingerhut entered the credit card business in early 1995, focusing primarily on lower-income consumers. By the end of the year, it was the nation's 23rd-largest issuer of co-branded Visa and MasterCard cards, with \$500 million in receivables on 750,000 accounts.

Fingerhut's success was hard-won, since conventional credit scoring formulas aren't designed to spot nuggets hidden in the tailings. Instead, they "are geared toward finding the cream of the crop and tossing away the rest," according to *Bank Technology News*. "Less effort is made to distinguish be-

paying them off. Still others are those with blemishes tied directly to a life event; for example, a divorce or a severe illness could suddenly alter the ability to repay, but not affect longer-term habits. The goal is to pick the candidates who truly want to improve their credit ratings, and weed out the ones who don't care."¹⁹

Ironically, at the very time that credit card issuers are re-examining their policies toward subprime credit risks, they are adopting a harder line toward some of their most responsible customers. On Sept. 10, GE Capital Corp. announced it was notifying holders of its GE Rewards MasterCard that they will have to pay a \$25 annual fee if they pay off their balances every month, thus avoiding interest charges. Two weeks later, General Motors halved the maximum car rebate that holders of its gold MasterCard could earn over seven years from \$7,000 to \$3,500.

"The GM move underscores the fact that there are no guarantees with bank credit cards," commented Robert McKinley, president of RAM Research, a credit card tracking firm in Frederick, Md. "Once too many cardholders figure out how to beat the system, card issuers change the rules."²⁰



Increasingly aggressive credit card marketing threatens consumers' privacy, consumer advocates say.

tween the 'good-bads' and the 'bad-bads' — that is, applicants who exhibit positive signs of improvement vs. the ones with ongoing troubles."¹⁸

Determining who belongs in each group requires intense scrutiny of credit histories. The more promising candidates "include people who may have had credit skirmishes in the past, but who have cleaned the slate," the publication said. "Others may be young people who've maximized their lines of credit, but hold promise of

The 'Indebted Society'

In their recent book, Medoff and Harless pointed to a troubling change in consumer borrowing since the 1960s. They noted that the "classic model for consumer behavior is that when times are good, people borrow in the expectation of more good times." Today, in contrast,

Continued on p. 1026

At Issue:

Has the credit card industry made credit too easily available to teenagers and college students?

KEN McELDOWNEY

Executive Director, Consumer Action

FROM TESTIMONY BEFORE THE HOUSE BANKING, FINANCE AND URBAN AFFAIRS SUBCOMMITTEE ON CONSUMER CREDIT AND INSURANCE, MARCH 10, 1994.

the dramatic increase of new players in the credit card field has saturated the market and led the industry to react in two ways that disturb us greatly: the first is to heavily stimulate usage of cards, such as by encouraging cardholders to use them to pay for groceries and other basic necessities; the second is to suspend the traditional criteria for cardholders and offer large amounts of easy credit to people who have no credit experience or familiarity with the credit world, namely college students. . . .

Many callers to our [consumer information line] are besieged by credit debts and are confused about how to handle them. . . . Most do not understand how to determine the true cost of credit or how much they really owe. A surprisingly large number . . . do not realize the implications of only making the minimum payment each month; a common statement we hear is that the bank must be making a mistake, because, "I make the minimum payment each month, but the balance I owe hardly goes down. . . ."

While most of the callers to our switchboard are adults, not college students, this fact tends to make us even more concerned about the plight of students using credit cards.

If so many adults lack a basic understanding of how to use credit wisely, how can we expect that their children will do any better? We do not believe college students are miraculously better at handling credit than their elders.

The following factors tend to mask the degree to which young people are incurring excessive credit card debt:

They make minimum payments, expecting that they will be able to wipe out their debts at some future time when they are employed at high salaries; they rely on their parents to step in whenever they have trouble paying debts; with credit so easily available to people who already have credit cards, they apply for more cards and use that additional credit to help them make ends meet.

Such patterns of behavior can only go on so long. For those students who do not graduate, or do not find immediate employment or high-paying jobs, their post-college lives as young adults may be burdened by the nightmare of an enormous debt load, both from credit cards and student loans.

We feel that the credit card industry must shoulder blame for this problem, especially for the aggressive ways in which it pushes credit card applications at students, without balancing messages of "easy credit" with explanations of how to use credit wisely. . . .

VISA U.S.A. INC.

FROM TESTIMONY BEFORE THE HOUSE BANKING, FINANCE AND URBAN AFFAIRS SUBCOMMITTEE ON CONSUMER CREDIT AND INSURANCE, MARCH 10, 1994.

there is a high demand for credit cards in the college student market. Like other members of modern society, students need a variety of payment methods, including credit cards. Indeed college students particularly benefit from credit cards because such cards enable them to time important purchases, such as books and tuition, rather than have such purchases subject to available savings or cash flow. . . .

Having and using a credit card as an alternative to cash and checks is a normal and accepted means of payment in our society. . . . As adults, college students have every right to have access to this payment option. Nearly half of the college students in this country live on their own and qualify as "heads of households." Old enough to vote and to serve in the armed forces, most students appreciate the opportunity to have and use credit cards. Most importantly, a young adult can legally enter into a contractual agreement at the age of 18. A majority of students view credit card ownership and management as another rung on the maturity ladder, offering not only a chance to access credit but an opportunity to establish a good credit history. . . .

Contrary to what is often presented in the mass media, the average college student uses a credit card responsibly. More than half of the 9 million full-time undergraduates in this country have a general purpose credit card — and the majority of them maintain a better payment record than the general public. Research shows that college students pay the balance in full half of the time. Indeed college students are less likely to carry balances on their credit cards than the population at large, and when they do carry a balance, the amount is about one-third that of the average non-college credit card holder.

In fact, the college market mirrors or performs better than the general population in all areas of performance. College students tend to handle their credit cards in the same way as adults in other age groups — their charge-off rates appear to be no worse than that for the cardholder population as a whole.

While the efforts of Visa and its members in marketing credit products to college students is a way of building brand loyalty and eventually establishing a profitable relationship, none of the marketing would be worthwhile if these students weren't responsible consumers. Much of the media coverage on this issue centers on the student who got in over his or her head and couldn't meet their financial obligations. These students are anomalies. Nine out of 10 college students with credit cards use them wisely — and Visa would not be satisfied with any other outcome.

FOR MORE INFORMATION

American Bankers Association, 1120 Connecticut Ave. N.W., Washington, D.C. 20036; (202) 663-5471. The ABA tracks credit card delinquencies on a quarterly basis.

Bankcard Holders of America, 6862 Elm St., Suite 300, McLean, Va. 22101; (703) 917-9805. BHA educates consumers about the prudent use of credit and their rights and responsibilities as credit users.

Consumer Action, 116 New Montgomery St., Suite 233, San Francisco, Calif. 94105; (415) 777-9648. This nonprofit advocacy and education group focuses on issues related to credit cards.

Credit Research Center, Krannert Graduate School of Management, Purdue University, West Lafayette, Ind.; (317) 494-4380. The center prepares and distributes studies on how the credit markets are working.

International Credit Association, 243 N. Lindbergh Blvd., St. Louis, Mo. 63141; (314) 991-3030. ICA represents credit industry executives and professionals; its "Train the Trainers" program teaches teachers how to incorporate credit education into the school curriculum.

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"when times are bad, people borrow to make up the gap between expectation and reality.

"In itself, this pattern is not a problem, because over the business cycle, it is good that people continue to borrow during a recession. But the pattern becomes a problem when the economic downturn extends beyond a long-term trend (as it has). Over time, consumer borrowing starts to tie up more and more resources that could be better allocated to investment."²¹

According to Medoff and Harless, consumer debt forms only part of a much broader phenomenon affecting all sectors of the economy. "Families borrow to maintain lifestyles eroded by falling wages. Firms under pressure to service their current debt forgo investments in future productivity. And the government borrows solely to meet interest payments [on the national debt]. Today one can hardly imagine a world in which these three groups are not way over their heads in debt."²²

To "reverse the vicious circles" of indebtedness "and move into a virtuous circle," the authors recommend such steps as higher taxes on the top one-fifth of U.S. households, tax-shel-

tered personal savings, extended jobless benefits and job protection for older workers. "Americans will spend some years in the wilderness before the promised land becomes visible," they concede. "Unfortunately for those hurting in the Indebted Society, we must pass through it before moving beyond it."²³

"Debt," the TV Game Show

Television, meanwhile, has found a way to turn consumer debt into mass entertainment. The vehicle is a game show called "Debt," which debuted on the Lifetime cable channel in June.²⁴ The contestants compete not for cars, refrigerators and vacations in Hawaii but for liquidation of their personal debts, up to a limit of \$10,000.

"The country's in debt!" cries Wink Martindale, the show's host. "You're probably in debt! But most importantly, these three players . . . have come to us today with their real-life debt, and one of them might be lucky enough to get out of it by the end of the show."²⁵

During the first two rounds of "Debt," contestants field questions on pop culture; each correct answer reduces the amount owed to the player's

creditors. The contestant who sheds the most debt then moves on to a "lightning round" of 10 additional questions. The reward for a perfect score on these is a check for the contestant's total personal debt — up to \$10,000.

Even then, the game isn't necessarily over. The winner can elect to field one final question. The correct answer doubles the jackpot; a wrong one sends the contestant home empty-handed.

After viewing "Debt," David J. Morrow of *The New York Times* reached some unsettling conclusions: "While most contestants know their trivia, don't expect them to know the interest rates on their credit cards or their monthly account balances. . . . What many of these contestants did say, however, was that their financial troubles were not their fault. The debt is just the price of their lifestyle, which by their definition is Spartan."²⁶ ■

OUTLOOK

Charging Ahead

Consumer advocates and credit industry officials foresee easing of the nation's consumer credit burden in the near future. Though credit card issuers continue to incur more losses, says Susswein, "they're still raking in record profits. But they also are tightening credit standards to cut their losses. We should see the results of that in the next 18 to 24 months."

Heller of Veribanc is even more optimistic. "Absent a severe downturn in the economy, we'll start seeing the effects of what the banks and card issuers are doing to restrain borrowing within a year."

Looking further ahead, credit experts are guarded about the role of so-called "smart cards" in the credit

marketplace. Smart cards contain a computer chip that enables them to perform more than one function. The chip could, for example, combine the features of a credit card, debit card and stored-value card.

The most recent test of smart cards on a mass scale occurred in Atlanta during this year's Olympic Games. First Union Bank, NationsBank and Wachovia Bank of Georgia issued some 2 million stored-value cards in \$10, \$20, \$50 and \$100 denominations. About 50 Atlanta-area merchants, with a combined 1,500 retail outlets, agreed to accept the cards. But while the issuing banks termed the experiment a success, *Bank Advertising News* concluded that "the product was basically a dud, with only limited response from a handful of consumers."²⁷

In Robertson's opinion, "It will be a long, long time before Visa and MasterCard cards have smart chips in them." However, he predicts that the government will provide welfare recipients with smart cards, so benefits-transfers can be made electronically. "This will eliminate the need to mail checks or distribute food stamps, for instance," Robertson says. "The idea makes tons of sense. Considering just the potential for reducing fraud, it would be a terrific change for the better."

However, adds Robertson, "There's no reason at all to think smart cards are going to transform the Visa-MasterCard world, because all those retail terminals now in use would have to be upgraded or replaced. And that would cost many billions of dollars."

For Susswein, the smart-card issue is a "classic chicken-or-egg situation. Does a store invest in new technology to accept these cards before people

are using them? Conversely, why should people use the cards before stores can accept them? My hunch is that smart cards are going to emerge slowly over time. We'll probably see more growth in credit and debit cards and stored-value cards, which will then evolve into smart cards combining all those features and possibly others as well."

In the meantime, credit card use in such non-traditional venues as supermarkets and movie theaters is expected to continue growing. "That's because of the ease of using credit cards," says MasterCard's Shimmerine. "The consumer only has to pay one check at the end of the month. And since processing technology has improved, credit card transactions can be handled faster and more cheaply than before. Therefore, more merchants accept plastic."

Sherry agrees with Shimmerine's view of the future, but with some foreboding. "People are going out of their way to charge things like groceries, and it just seems like a really bad idea," she says. "You may be able to handle the charges now because you've got a good job. But suppose something catastrophic happens? Who will pay the credit card bills if you lose your job or fall seriously ill?" ■

Notes

¹ See "Why are consumers cutting back on spending?" *USA Today*, Nov. 4, 1996.

² James Medoff and Andrew Harless, *The Indebted Society: Anatomy of an Ongoing Disaster* (1996), p. 18. Medoff is a professor of labor and industry at Harvard University; Harless is an economic and financial consultant.

³ *Loc. cit.*

⁴ Testimony before House Committee on Banking and Financial Services, Sept. 12, 1996.

⁵ *Loc. cit.*

⁶ See Mary Geraghty, "Students, Wooed by Credit-Card Purveyors, Often Over-Commit Themselves, Colleges Find," *The Chronicle of Higher Education*, Nov. 8, 1996, p. A37.

⁷ Testimony before Subcommittee on Consumer Credit and Insurance, House Committee on Banking, Finance and Urban Affairs, March 10, 1994.

⁸ *Ibid.*

⁹ *Ibid.*

¹⁰ Quoted by Irving J. Michelman, *Consumer Finance: A Case History in American Business* (1966), p. 98.

¹¹ Daniel J. Boorstin, *The Americans: The Democratic Experience* (1973), p. 424.

¹² *Ibid.*, p. 423.

¹³ *Ibid.*, p. 428.

¹⁴ Medoff and Harless, *op. cit.*, p. 12.

¹⁵ "A Green Light for FBI Snooping?" *Credit Card Management*, May 1996, p. 34.

¹⁶ The three main nationwide credit bureaus are Equifax Credit Information Services, Experian Information Solutions Inc. (formerly TRW Information Systems and Services) and Trans Union Corp.

¹⁷ Quoted in *The Washington Post*, Oct. 27, 1996, p. C1.

¹⁸ Jackie Cohen, "Credit Scoring New Markets," *Bank Technology News*, July 1996, p. 38.

¹⁹ *Loc. cit.*

²⁰ Quoted in *USA Today*, Sept. 24, 1996, p. 2B.

²¹ Medoff and Harless, *op. cit.*, p. 17.

²² *Ibid.*, p. 7.

²³ *Ibid.*, pp. 225-26.

²⁴ The ABC network has an option to move "Debt" into its prime-time lineup as early as next year.

²⁵ Quoted in *TV Guide*, Aug. 17, 1996.

²⁶ David J. Morrow, "The Hit Quiz Show for Those Who Owe," *The New York Times*, Aug. 11, 1996.

²⁷ "Smart Card Reception Lukewarm in Atlanta," *Bank Advertising News*, Aug. 12, 1996, p. 6.

Bibliography

Selected Sources Used

Books

Medoff, James, and Andrew Harless, *The Indebted Society: Anatomy of an Ongoing Disaster*, Little, Brown, 1996.

Though Medoff and Harless discuss consumer debt, they devote most of their book to corporate and public indebtedness. Rising debt, in their view, has distorted the economy and heightened feelings of economic insecurity among working Americans. Among other remedies, they recommend raising taxes on the top one-fifth of U.S. households, extending unemployment benefits and enacting laws to protect the jobs of older workers. "Americans will spend some years in the wilderness before the promised land becomes visible," they write. "Unfortunately for those hurting in the Indebted Society, we must pass through it before going beyond it."

Articles

Cocheo, Steve, "This Is Not Your Father's American Express," *ABA Banking Journal*, September 1996.

Cocheo, executive editor of the journal, details how American Express, a credit card pioneer, is working to regain lost market share through more aggressive and flexible marketing.

Daly, James J., "The Pressure Builds," *Credit Card Management*, May 1996.

Daly, the editor of *Credit Card Management*, looks at rising concern among lenders about credit card delinquencies and charge-offs. "Clearly, the credit card is still king of the banking hill," he writes. "But if the loss situation doesn't get back under control, plastic could find itself dethroned."

Frank, John N., "The Brouhaha Over Privacy," *Credit Card Management*, May 1996.

Contributing Editor Frank examines the reasons why many consumers worry about the privacy of their financial data. A major concern is the selling of names to direct-mail marketers without consumers' knowledge or permission.

Harden, Lisa, "Combatting Financial Illiteracy," *Northwestern Financial Review*, Aug. 24, 1996.

Harden surveys efforts by some bankers and educators in the upper Midwest to improve the financial savvy of young people.

Hudson, Michael, "Cashing In on Poverty: How Big Business Wins Every Time," *The Nation*, May 20, 1996.

Hudson shows how certain lenders prosper by catering to the nation's least affluent consumers. "Pawn shops, check-cashing outlets, rent-to-own stores, finance companies, high-interest mortgage lenders and many others are raking in big money by targeting people on the bottom third of the economic ladder — perhaps 60 million consumers who are virtually shut out by banks and other conventional merchants."

McMenamin, Brigid, "Invasion of the Credit Snatchers," *Forbes*, Aug. 26, 1996.

McMenamin examines consumer-identity fraud, which occurs when a crook obtains a person's Social Security number and credit card account numbers and uses the information to establish fraudulent credit lines. "Some imposters actually live under the names they steal," notes McMenamin. "They take out driver's licenses, sign leases, even give the stolen names to police when nabbed for other crimes."

Stark, Ellen, "Swamped by Debt? Here Are Six Ways to Get Out," *Money*, September 1995.

Climbing out of a debt swamp is never painless, but it can be done, Stark says.

Zizka, Robert, and Sanford Rose, "Who Wins in Consumer Lending — and Why?" *Journal of Retail Banking*, spring 1995.

The authors, both associated with First Manhattan Consulting Group, take a look at "customer data-base management," a strategy for separating the wheat from the chaff among credit risks.

Reports and Studies

American Bankers Association, *1995 Bank Card Industry Survey Report*, 1996.

The ABA, trade group of the U.S. banking industry, reviews key legislative and regulatory developments at the federal level in 1993-94, the first two years of the Clinton administration.

Subcommittee on Consumer Credit and Insurance, U.S. House Committee on Banking, Finance and Urban Affairs, *Kiddie Credit Cards* (published proceedings of hearing held March 10, 1994).

Representatives of consumer groups and credit card companies offer contrasting views on whether college students know enough about money management to be entrusted with credit cards of their own.

The Next Step

Additional information from UMI's Newspaper & Periodical Abstracts database

Consumer Debt

Bleakley, Fred R., "Consumer debt alarms some analysts," *The Wall Street Journal*, Sept. 11, 1995, p. A2.

Consumers are taking on so much debt that some economists are beginning to sound alarm bells, predicting that caution will set in, consumers will pull back and the economy will stall. Other economists are more optimistic, saying lenient credit terms allow consumers to carry their debt longer.

Browning, E S, "Heard on the street: Bank stocks fall on fears about cards," *The Wall Street Journal*, June 21, 1996, p. C1.

Investors clobbered bank and credit card stocks on June 20, 1996, as worries spread about mounting rates of personal bankruptcy and bad credit-card debt. The sell-off was triggered by Bank of New York's announcement on June 19 that it would boost credit card loss reserves by \$350 million.

Coleman, Calmetta Y., "Consumer debt and charge-offs escalate," *The Wall Street Journal*, Feb. 12, 1996, p. A2.

Credit card issuers are finding that as they reach out for more customers, they are seeing higher charge-off rates, or accounts written off as uncollectable. The charge-off rates of a number of card issuers are examined.

"Easing in consumer debt," *The New York Times*, March 8, 1995, p. D2.

The Federal Reserve said on March 7, 1995, that consumer credit rose in January at the slowest rate in 20 months, led by a decline in borrowing to buy automobiles. Credit rose \$3.7 billion compared with a gain of \$6.6 billion in December 1994.

"Growth in consumer debt slows sharply," *Los Angeles Times*, July 9, 1996, p. D2.

The growth in consumer debt slowed sharply in May 1996, climbing at an annualized rate of just 4.9 percent, according to government data released on July 8, 1996. Some analysts attributed the slowdown to a tightening of credit standards by lenders worried about rising delinquency rates.

Gullo, Karen, "Worries rise over jump in consumer debt," *Boston Globe*, Oct. 29, 1995, p. 44.

The average American wallet holds seven different credit cards, contributing to an explosion of consumer debt, according to RAM Research, a consulting business that follows the credit card industry. Now, a rise in late payments has some analysts worried that consumers are overextended, and companies that lend money are headed for trouble.

Kaslow, Amy, "Consumer debt could slow 1996, eco-

mic engine," *The Christian Science Monitor*, Dec. 28, 1995, p. 1.

Although 1995 was a solid year for the American economy, top analysts predict slower growth in 1996, with the glum prospect that a recession could begin right around election day in November. Factors contributing to an economic slowdown are highlighted.

Lee, Louise, "Consumer debt crimps profit at Penney and Dillard as Wal-Mart net rises 12 percent," *The Wall Street Journal*, Aug. 14, 1996, p. A2.

Rising consumer debt levels led to lackluster results at J. C. Penney Co. and Dillard Department Stores during their second quarters, while Wal-Mart Stores Inc., the U.S.'s largest discounter, bounced back to post a double-digit gain in profit. Penney saw a 19 percent drop in profit in the period ended July 27, 1996, Dillard posted a slight increase for its quarter ended Aug. 3 and Wal-Mart reported a rise of 12 percent.

McGeehan, Patrick, "Consumer debt worries weigh on stocks," *USA Today*, Oct. 26, 1995, p. B3.

The Dow Jones industrial average fell 29.98 points to close at 4753.68 on Oct. 25, 1995, while the S&P 500 fell 4.07 to 582.47 and the Nasdaq composite fell 12.77 to 1026.47.

Montague, Bill, "Heavy credit card use pushes consumer debt up 8 percent in," *USA Today*, Sept. 10, 1996, p. B2.

Consumer credit rose at an 8 percent annual rate in July 1996, the biggest gain in three months. The consumer credit figure, reported Sept. 9 by the FRB, was slightly higher than analysts expected due to the fact that credit card debt soared in July at a 19.4 percent annual rate. Monthly consumer credit is depicted for July 1995—July 1996.

Shao, Maria, "Rising debt of consumers spurs worries," *Boston Globe*, June 21, 1996, p. 83.

From credit card late payments to mortgage delinquencies to personal bankruptcies, U.S. consumers seem stretched to the max in June 1996. While the overall economy has been humming along with low inflation, a number of signs have emerged that consumers, who account for two-thirds of economic activity, are under stress.

Tharpe, Gene, "Consumer debt piling up," *Atlanta Constitution*, June 10, 1996, p. E2.

Tharpe notes the burgeoning debt-collection business in America and offers advice on consumer protection rights concerning collections.

Vogel, Thomas T. Jr., "Consumer debt worries are overblown," *The Wall Street Journal*, Dec. 14, 1995, p. A2.

Worries about the surge in consumer debt may be overblown, a growing number of economists are concluding. The American Bankers Association reported Dec. 13, 1995, that while bank credit delinquencies have reached near record levels, there have not been similarly large increases for broader measures of consumer debt.

Credit Card Delinquencies

“Credit card delinquencies almost hit 15-year high,” *The Wall Street Journal*, June 11, 1996, p. A16.

The American Bankers Association reported that credit card delinquencies reached an almost 15-year high in the first quarter of 1996. The percentage of overdue credit card accounts hit 3.53 percent in the quarter, up from 3.34 percent in the last quarter of 1995.

“Credit Card Delinquencies Reach a Record Level,” *The New York Times*, Sept. 18, 1996, p. D4.

The rate of late payments on credit cards reached a record level in the second quarter of 1996, the ABA said on Sept. 17, citing the effect of loose lending standards. Delinquencies were reported on 3.66 percent of credit card accounts, up from 3.53 percent in the first quarter.

Hershey, Robert D. Jr., “Credit card delinquencies rise; Price report shows no inflation,” *The New York Times*, March 15, 1996, p. D1.

The ranks of consumers who have fallen behind on credit card payments edged up to match a 10-year high in the final quarter of 1995, a sign of growing household distress that some economists argue threatens to bring the five-year-old economic expansion to an end. Meanwhile, prices paid to factories, farmers and other producers fell in February 1996 for the first time in eight months, easing fears that the big jump in new jobs might lead to higher inflation.

Matthews, Gordon, “Credit card delinquencies worry stock analysts,” *American Banker*, June 13, 1996, p. 1.

Some Wall Street analysts are growing more worried about the impact of rising credit card losses on bank earnings and stock prices. Their concerns heightened the effect of news during the week of June 9 from the American Bankers Association that card account delinquencies reached a 15-year high in the first quarter.

Stark, Ellen, “Avoid these high credit card charges,” *Money*, January, 1996, p. 38.

Credit card delinquency rates are at their highest mark since recessionary 1991. Card holders can avoid high credit card charges by grabbing a low-rate card, not overstepping their credit limit and avoiding late charges.

Credit-Identity Fraud

Dugas, Christine, “Credit card fraud is put to the test,” *USA Today*, May 15, 1996, p. B1.

Biometric technologies, based on unique personal character-

istics such as fingerprint, retina scan or voiceprint, are being tested by banks in an effort to stop credit card fraud.

McLeod, Ramon G., “Beyond credit card theft,” *San Francisco Chronicle*, Aug. 30, 1996, p. A26.

Theft of identity may be one of the fastest-growing forms of credit card fraud today, according to a report issued on Aug. 29, 1996, by the California Public Interest Research Group. However, consumers can take some simple steps to protect themselves.

“U.S. invades privacy in Nevada credit card sting,” *Denver Post*, Sept. 10, 1996, p. B8.

An editorial comments on a Las Vegas, Nev., case where the federal government, in an attempt to snare a computer operator who had expressed interest in illegally obtaining credit card information, and a major bank, gave a suspected crook the credit card numbers and personal histories of citizens, without their permission or knowledge.

Credit Card Marketing

Croghan, Lore, “The Avis of credit card data,” *Financial World*, July 18, 1995, p. 56.

Total System Services is investing in cutting-edge technology to try to become number one in the credit card data-processing business. The \$188 million-in-sales card processor hopes new software will win over banks.

“First USA to add 2 credit card processors,” *The New York Times*, Aug. 26, 1995, p. A35.

First USA Inc. said on Aug. 25, 1995, that it would acquire the U.S.'s two largest independent direct-marketing credit card processors in separate stock and cash deals for undisclosed terms. Dallas-based First USA said it would offer stock to acquire Litle & Co. and pay cash for the DMGT Corp.

Fitzgerald, Kate, “In credit card business, relationships count,” *Advertising Age*, Oct. 7, 1996, p. S18.

John D. Hayes is an advertising executive at American Express, and John Cochran is the chief marketing officer at MBNA America Bank. Cochran is a master of database and relational marketing. Hayes oversaw the launch of American Express' first global advertising campaign.

“Kmart Plans Nationwide Expansion of Credit Card,” *The New York Times*, Aug. 28, 1996, p. D3.

The Kmart Corp. said on Aug. 27, 1996, that it would make its new credit card available in more than 2,100 stores across the U.S. The discount retailer had strong results in test-marketing of the credit card at 167 stores.

Murray, Matt, and Vanessa O’Connell, “Banc One to test credit card that lets holders borrow against 401(k) money,” *The Wall Street Journal*, June 24, 1996, p. A7.

Banc One Corp has decided to proceed in fall 1996 with test-marketing a long-discussed credit card that would permit holders to borrow against their 401(k) retirement accounts.

Sheets, Ken, "Does your credit card match your style?" *Kiplinger's Personal Finance Magazine*, January 1995, pp. 112-116.

Credit cards that are tailored to match particular spending profiles are described. Consumers who carry a balance of less than \$1,000 should get a no-annual-fee card.

Tharpe, Gene, "Credit card offers: Reality in the fine print," *Atlanta Constitution*, Nov. 13, 1995, p. E2.

Tharpe explains the realities behind some of the marketing lures used in preapproved credit card offers.

Personal Bankruptcy

de Senerpont Domis, Olaf, "Bankruptcy too easy an out, Visa exec. tells banking panel," *American Banker*, Sept. 13, 1996, p. B2.

Kenneth Crone, vice president of Visa U.S.A.'s risk management and security division, told a House Banking Committee hearing on consumer loan delinquencies Sept. 12, 1996, that the Bankruptcy Code "allows debtors to obtain more protection than they need." Crone argued that unless Congress legislates to curb the rate of bankruptcies, banks will be forced to restrict how much credit they offer.

Dugas, Christine, "Bankruptcy cases grow despite healthy economy," *USA Today*, Aug. 9, 1996, p. B6.

Despite good economic news, debt is a growing problem for many Americans, resulting in more bankruptcy filings, perhaps a 20 percent jump in 1996. The types of personal bankruptcy are examined, as well as other factors besides debt that can lead to bankruptcy.

Dutt, Jill, "Bank losses on credit cards rise," *The Washington Post*, Sept. 12, 1996, p. D9.

Bank credit card losses are at their highest level since 1992, the federal government reported Sept. 11, 1996, in what many analysts said is both a side effect of the surge in personal bankruptcy filings as well as fallout from years of corporate downsizing.

Frank, Stephen E., "Your money matters: Weekend report: Over your head in debt? Bankruptcy offers new start," *The Wall Street Journal*, Aug. 23, 1996, p. 1.

For many Americans mired in debt, bankruptcy can actually be good news. Indeed, the bankruptcy laws were intended to help people wipe the slate clean and start over. And for some people hopelessly over their heads in bills, a fresh start is just what they need. The pros and cons of claiming personal bankruptcy are examined.

Kogan, Rick, "The age of Aquarius," *Chicago Tribune*, p. 13. June 30, 1996

Theater producer Michael Butler is profiled as he emerges from personal bankruptcy. Although Butler produced the play and the film "Hair," he lost millions of dollars over his career.

Tharpe, Gene, "Going for broke," *Atlanta Constitution*, Sept. 23, 1996, p. E1.

Personal bankruptcies filed nationwide climbed to record numbers during the last two quarters, and estimates are they will top 1 million for 1996, the first time ever for a calendar year. The Atlanta and north Georgia district, for the 12 months ending June 30, recorded slightly fewer than 28,000 personal bankruptcies, the sixth-highest district total in the U.S.

Trumbull, Mark, "Rising bankruptcies show value of managing debts," *The Christian Science Monitor*, Sept. 3, 1996, p. 9.

In the year ending June 30, 1996, the number of bankruptcy filings totaled more than 1 million for the first time ever in a 12-month period. That's almost one person for every 100 U.S. households. If bankruptcy has lost some of its stigma, however, it hasn't lost its sting, both emotionally and in a tarnished credit record.

Students as Target of Credit Card Marketing

"American Express Co.: Credit card for the young is being test-marketed," *The Wall Street Journal*, Aug. 15, 1995, p. A10.

American Express Co. is test-marketing Personal Choice, a credit card targeted at younger people without a credit history. The new card allows holders to choose their own credit limit between \$500 and \$1,500.

Dugas, Christine, "Credit card firms recruit new users on campuses," *USA Today*, May 28, 1996, p. B1.

Credit card companies are aggressively pursuing college students, who haven't hesitated to accept the offers. In 1996, consumers under age 30 are more likely to carry a credit card balance and to be worried about the amount of debt they are carrying, according to an informal *USA Today* reader survey.

Meece, Mickey, "Star and student loan group sending credit card to school," *American Banker*, Aug. 8, 1996, p. 10.

College students on 31 campuses this fall will be able to pay for school-related expenses at selected merchants with CollegeCard, the brainchild of nonprofit, student-lending organization Southwest Student Services Corp of Mesa, Ariz., Star Banc Corp. of Cincinnati issues the private-label card and Total System Services Inc, Columbus, Ga., processes the transactions. Star Bank said the card is underwritten like a student loan, so it's no risk to the bank.

Shepardson, David, "U-M students can use school credit card off-campus," *Detroit News*, April 26, 1995, p. B7W.

With some kinks still to be worked out, 500 University of Michigan students and Ann Arbor merchants are testing a program that allows school credit card holders to make purchases at off-campus locations.

Back Issues

Great Research on Current Issues Starts Right Here...Recent topics covered by The CQ Researcher are listed below. Before May 1991, reports were published under the name of Editorial Research Reports.

MAY 1995

Assisted Suicide Controversy
Overhauling Social Security
Learning to Read
Mandatory Sentencing

JUNE 1995

Combating Infectious Disease
Property Rights
Repetitive Stress Injuries
Regulating the Internet

JULY 1995

War Crimes
Highway Safety
Combating Terrorism
Preventing Teen Drug Use

AUGUST 1995

Job Stress
Organ Transplants
United Nations at 50
Advances in Cancer Research

SEPTEMBER 1995

Catholic Church in the U.S.
Northern Ireland Cease-Fire
High School Sports
Teaching History

OCTOBER 1995

Quebec's Future
Revitalizing the Cities
Networking the Classroom
Indoor Air Pollution

NOVEMBER 1995

The Working Poor
The Jury System
Sex, Violence and the Media
Police Misconduct

DECEMBER 1995

Teens and Tobacco
Gene Therapy's Future
Global Water Shortages
Third-Party Prospects

JANUARY 1996

Emergency Medicine
Punishing Sex Offenders
Bilingual Education
Helping the Homeless

FEBRUARY 1996

Reforming the CIA
Campaign Finance Reform
Academic Politics
Getting Into College

MARCH 1996

The British Monarchy
Preventing Juvenile Crime
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