

Statement of
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Committee on Banking, Housing, and Urban Affairs
Of the
U.S. Senate
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Chairman Shelby, Ranking Member Sarbanes, and members of the Committee, I appreciate the opportunity to appear before you today to discuss the Office of the Comptroller of the Currency's perspectives concerning the marketing and disclosure practices of the U.S. credit card industry. Given the importance of credit cards to consumers and the U.S. economy, this is a most timely hearing.

The OCC's supervision of the credit card operations of national banks includes safety and soundness fundamentals, compliance with consumer protection laws and regulations, and fair treatment of consumers. My written statement describes our activities in those respects in detail.

This morning I would like to summarize four key points from that written testimony.

First, it is widely recognized that today's credit card industry is highly competitive and innovative. Card issuers have responded to increasing market competition with innovations in card products, marketing strategies, and account management practices. The primary goals of these product and marketing innovations have been to gain new customer relationships and related revenue growth, but in some instances an important secondary benefit has been expanded access to credit by consumers with traditionally limited choices.

Unfortunately, not all of the product and marketing innovations have had a uniformly beneficial impact, and the account management and marketing practices of credit card issuers have come in for criticism in recent years, from both consumer protection and safety and soundness standpoints.

In recent years, the OCC has issued supervisory guidance alerting national banks to our concerns about credit card account management and loss allowance practices, secured cards, and credit card marketing practices. And, utilizing our general enforcement authority, in combination with the prohibition on unfair and deceptive practices contained in the Federal Trade Commission Act, we have taken formal enforcement actions against several banks – actions that have required those banks to end unfair and abusive practices and make restitution to consumers totaling hundreds of millions of dollars.

However – and this is the second point I wish to emphasize – in assessing our actions, it is important to appreciate that the OCC does not have statutory authority to issue regulations defining particular credit card disclosures or practices by banks as unfair and deceptive under the Federal Trade Commission Act. Nor do we have the authority to issue regulations setting standards for disclosures credit card issuers must make under the Truth in Lending Act. In both respects, that authority is vested exclusively in the Federal Reserve Board.

That brings me to my third point. The OCC took the unusual step last month of submitting a comment letter responding to the Board’s Advance Notice of Proposed Rulemaking on Regulation Z’s open-end credit rules implementing TILA. My written statement describes the most important issues raised in our comment letter: the importance of consumer research and testing, the pitfalls of extensive, prescriptive disclosure rules, and the importance of disclosure standards keeping pace of industry developments.

Finally, my statement stresses that disclosure is at the heart of our system of consumer protection. Lately, however, there has been much criticism of the state of credit card disclosures and marketing practices. Clearly, there is room for improvement.

My statement highlights several areas where disclosure issues currently exist, and discusses the need to begin a serious re-examination of how we go about developing, designing, implementing, overseeing and evaluating consumer disclosures for financial products and services. I urge that we take a new approach, premised on obtaining input, through consumer testing, to learn what information *consumers* most want to know about, and how to most effectively convey it to them. Quick fixes without consumer input and issue-by-issue disclosure “patches” to information gaps are not in the long-term best interests of consumers.

The direction set by Congress and the experience of the Food and Drug Administration using input from consumers to develop the now-well-recognized “Nutrition Facts” disclosure for food provides us with some valuable lessons on how to provide disclosures that are both *understandable* and *useful* to consumers. Why can’t we apply these positive lessons to the design of disclosures for financial products? Why should consumers today get more effective disclosure when they buy a bag of potato chips than when they make substantial financial commitments for financial products and services?

In conclusion, Mr. Chairman, the OCC has addressed many of the recent changes in credit card practices through its examination process, enforcement actions where necessary, and supervisory guidance. But consumers also depend on high quality, user-friendly disclosures to help guide them through the increasing complexities of the credit card marketplace. The Federal Reserve’s review of Regulation Z disclosures holds promise in this regard, but I respectfully urge that we also need to rethink our approach to disclosure generally, along the lines I have described. The benefits for consumers, for marketplace participants, and for our economy will be well worth it.

Let me again thank the Committee for its attention to these important matters. I look forward to your questions.