



INDEPENDENT COMMUNITY
BANKERS *of* AMERICA

Statement for the Record

By the

Independent Community Bankers of America

Before the

**Congress of the United States
House of Representatives
Committee on Financial Services
Subcommittee on Financial Institutions and Consumer Credit**

Hearing on

**"The Credit Cardholders' Bill of Rights: Providing New Protections for
Consumers"**

April 17, 2008
Washington, D.C.

Chairwoman Maloney, Ranking Member Biggert, Members of the Subcommittee, the Independent Community Bankers of America¹ (ICBA) is pleased to submit this statement for the record regarding H.R. 5244, the Credit Cardholders' Bill of Rights Act of 2008. On behalf of ICBA's nearly 5,000 member banks, 70%² of which issue credit cards to consumers and small businesses, we believe it is critical for this Committee to consider the unintended consequences additional regulation of the credit card industry would have on community banks and their customers. While we agree that a small number of issuers have engaged in practices that are harmful to consumers, any legislative remedy should more broadly focus on encouraging consumer choice, transparency, and disclosure. This measure, which instead attempts to prohibit specific practices, imposes additional costs and burdens on community bankers who did not contribute to the problems in the industry, and will result in fewer and more expensive sources of credit for all Americans.

Carrot vs. Stick

Deceptive practices and egregious and hidden fees should not be tolerated by consumers. Educating consumers on a card's terms and conditions through appropriate and comprehensible disclosures is the best means of combating unfair practices: the marketplace responds when consumers are able to distinguish a good deal from a bad one

¹ The Independent Community Bankers of America represents nearly 5,000 community banks of all sizes and charter types throughout the United States and is dedicated exclusively to representing the interests of the community banking industry and the communities and customers we serve. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace.

With nearly 5,000 members, representing more than 18,000 locations nationwide and employing over 268,000 Americans, ICBA members hold more than \$908 billion in assets, \$726 billion in deposits, and more than \$619 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

² To view an executive summary of the 2007 ICBA Community Bank Payments Survey, please visit <http://www.icba.org/publications/2007paymentsurvey.cfm?ItemNumber=38445>

and make their choices accordingly. Imposing new rules in an effort to target the practices themselves simply encourages those issuers intent on maximizing profits at all cost to find new ways to do so. Shining a spotlight on a card issuer's practices through proper disclosure will give consumers the knowledge they need to avoid entering into a card contract unsuited or detrimental to their needs.

The Credit Cardholders' Bill of Rights Act, in its attempt to restrict what today are considered to be inappropriate practices, would mandate arbitrary rules and procedures on an entire industry that, in the long term, will make consumers worse off than they are today. ICBA disagrees with this approach, and believes the consequences of these new rules will cause many community bankers to open fewer accounts and to consider exiting the credit card marketplace entirely. Regulatory and paperwork requirements such as those that would be imposed through this bill disproportionately burden community banks, diminishing their profitability and their ability to attract capital, support the credit needs of their consumer and small business customers, serve their communities and contribute to their local economies. No one benefits if community banks exit the marketplace.

Negative Consequences for the Community Bank Business Model

In today's struggling economy, access to credit is vital to many families. Many hard-working households use credit cards to budget their cash and spending as well as to deal with emergency or unexpected expenses. Community bankers, with business models based on establishing long-term relationships through good and bad financial times, have remained a solid and cost-effective option for countless consumers when the alternative is often a payday lender.

Community banks do not issue consumer and corporate credit cards at nearly the volumes of the large, nationwide issuers. Community banks are conservative lenders that have no desire to trap their local customers in never-ending cycles of debt. Frankly, our business model, focused on customer service and finding the right product for each customer, gives us a competitive advantage. For the responsible consumer or small business owner, that means they have more choices: they can choose to do business with the megabank with call centers all over the globe, or they can get that same card product, with local customer service, at competitive and often better rates with their local community banker.

But that competitive advantage we offer our local customers can be quickly erased through a legislative approach such as H.R. 5244. Its restrictions take flexibility away from lenders and make it difficult to adapt to changing markets and new consumer demands. Its variety of new burdens will impact the cost of providing services, how community banks price products, and how they are offered to customers. Less flexibility will likely translate to increased costs for all borrowers, and less credit availability for those at the margin.

Contrary to popular belief, for many community banks, the consumer and business credit cards we offer are rarely sources of tremendous profits. Offering community bank-branded cards creates a stronger relationship with the customer, and encourages loyalty. In other words, many community bankers offer these products as an additional service to customers, not as the bank's main source of revenue. The real value often lies in our basic ability to offer these popular products to consumers and small businesses.

Conclusion

Community banks want to provide their customers with a range of services, not just reap profit off credit cards, working to build a relationship built on trust. As such, ICBA is supportive of pending regulatory efforts that will clarify and improve consumer disclosures in a meaningful way, which will go far to force issuers to abandon unfair practices and fee structures.

However, the Credit Cardholders' Bill of Rights Act, while well-intentioned, approaches the issue in way that will create more difficulties than it cures. The consequences of this bill, if enacted, will mean less choice and more cost for Americans as many community banks realize the added regulatory burden mandated by the legislation outweighs the benefits and exit the market. If Congress legislates on credit card practices, it should do so in a manner that opens the process, making terms easier to understand, so consumers will be properly informed about their credit choices.