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"Giving Consumers Credit: How Is The Credit Card Industry Treating Its Customers?"

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Mr. MANNING: Thank you, Mr. Chairman. I appreciate the opportunity to share my research with the subcommittee on what is increasingly important in the banking industry's policies that are leading to a segmented structure of the consumer credit markets.

This subcommittee and many of its Members have a distinguished record in terms of addressing and championing the interests of American households. I think it's important to point out that in this current period, we're talking about an unprecedented era of profitability for the banking industry. Nine out of the ten last years have recorded record annual profits.

In particular, I'd like to acknowledge the long-standing efforts of the Member from Buffalo, who due to my new academic appointment in upstate New York, will soon be competing for my vote in the next electoral campaign. Congressman LaFalce has certainly been passionate and a persistent advocate for working families and highlighting the increasingly common excesses and questionable business practices of the credit card industry.

In this context, I'd like to preface my remarks by saying that I typically teach seminars of 2 to 3 hours, so this is certainly going to be a race for me, and I've included a much more extended testimony to address the particulars of my testimony.

I'd like to address three particular issues. One is the trends that are ongoing in the industry that have affected the pricing structure, particularly the point that we are increasingly discussing, the issue of sticky interest rates. I would like to emphasize what is a profound change in the new post-industrial economy of the important role of the macro-economic management of the economy and how major money center banks are now dramatically shifting the ability of the Federal Reserve to pursue its traditional management policies.

The third issue I want to address is the issue increasingly referred to as Generation in Debt, and the role in which the marketing of consumer credit cards is playing such a critical role into the future generations as well as the savings rate of the American economy.

The last 20 years have featured the deregulation of the banking industry. And it's important to understand the promises that were presented to us: A wider array of services certainly associated with lower prices. What we've seen is a tremendous acceleration of consolidation and conglomerate structure of the industry where the top ten credit card companies control three-fourths of the market. And we've seen this as it relates to the shift in real rates that have been charged in terms of consumer credit, and I refer you to Figure 2 of my testimony, which shows that real interest rates approximately have nearly doubled over the last 20 years. And it's important to put this in the context of comparing it to the automobile rate and the corporate prime rate, which shows you how sticky the interest rates have been on the one hand on the corporate side and very fluid and highly elastic on the consumer side.

Also I want to emphasize the emergence of a bifurcated structure, what we are increasingly referring to as a second tier. Issues such as payday lending, where we're talking about consumers burdened with 20 percent interest rates per year, we're talking about the emergence and increasing integration of markets where consumers are charged 15 to 30 percent for a 2-week loan. And these are not just small lenders. We're talking about joint ventures with Wells Fargo and Cash America, and who would have expected that the Community Reinvestment Act might possibly be satisfied by the portfolio of high interest credit cards and maybe even payday loans that are offered in central cities?

Indeed, what's profound about the shift in the banking industry is going away from installment lending at fixed rates at fixed terms to revolving rates. The real question is, does the increased risk justify the much higher real rates?

Indeed, what I think is critical here is looking at this in the context of the ongoing discussion of the conference committee on the consumer bankruptcy bill where the emphasis has been on limiting the ability of Chapter 7 to liquidate unsecured loans. The real issue has been has the pricing structure of the industry in terms of consumer credit cards already priced in a much higher delinquency rate? Is this simply another way of price gouging? It's quite intriguing to me that in the discussion of Federalizing the possibility of security at the airports, we have not questioned the possibility of Federalizing debt collection, which is clearly a subsidy to the banking industry during this context of unprecedented profitability.

Also I want to emphasize that when we talk about consumer debt, it's not just the magnitude but the terms. And indeed, we have a real imprecision here where issues such as car leases, payday loans, and so forth, are not directly measured in terms of the total debt obligations of consumers. Indeed, in 1999, we now have passed the threshold where the debt levels of the average household exceed 100 percent of their discretionary income.

Let me finish my comments by emphasizing then the fact that as we've increasingly heard, the Federal Reserve's lowering of the interest rates has not been reflected in lower interest rates to consumers.

What I'm seeing in my more recent research today is that both the tightening to small businesses, which are the primary motor of job generation, and also the tightening of households could further push us into a deeper and more prolonged recession. And I think this is very critical as we discuss what is the debt burden and how crushing it may be.

To conclude, the terms of the ''Generation in Debt,'' what is striking to me is when I first conducted my research over 10 years ago is when we saw the marketing of consumer credit to college students, it was rare to see a student with $2,000 to $3,000 graduating in debt in the early 1990s during the recession. Most of that debt was attributed to the difficulty of their job search. Today for the first time, we're going to see students routinely with $5,000 and $10,000 in credit card debt, which is subsidized by their ability to rotate it into federally subsidized student loans, who are going to be entering a job market maxed out before they begin looking for a job.

What I think is striking about the credit card industry in discussing their efforts to educate and make more savvy consumers, is there's no discussion on savings. This, Mr. Chairman, is going to have a profound impact on the economy and society as we become increasingly dependent on foreign markets for savings, that the national savings rate as it has achieved a negative rate will have a tremendous impact on our ability to compete globally and also impact on asset formation and the ability of future cohorts to retire in the standard of living they've grown accustomed to. Thank you.