COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-6348

FYI — I'm getting copies of the studies

June 24, 1998

To Nicole —
This is another important issue we should follow.
Hrc

The Honorable William J. Clinton
The President
The White House
Washington, D.C. 20500

Dear Mr. President:

As you and the Vice President continue your public discussions on the future of Social Security, we urge you to address the issues facing women. Women retiring in the next 20 years will have less than one-third the income necessary to retire comfortably, a situation that is greatly exacerbated for women of color. Several Social Security proposals under consideration would only make this situation worse.

The majority of Social Security recipients are women and yet, so far, the various reform proposals' specific effects on women and their life choices have not been highlighted. We want to make sure American men and women understand these effects as they make choices about their Social Security system.

Too few young women today understand that the job decisions they make when they enter the workforce can have a devastating impact on their lives in retirement. They mistakenly believe that the increased number of women holding better jobs means that their lives will be different. Unfortunately, that is not the case. Three out of five women are still in low-wage jobs that offer few benefits, including pensions, and they work in much greater numbers than men in part-time and contingent jobs. The situation is not expected to change well into the future.

When these women retire, even if they have worked full time and take no time out of the workforce, they will most likely have little retirement income other than a meager Social Security benefit. Most women, however, do take time out of the workforce — 11.5 years on average — to raise their children or care for ailing parents or spouses. During that time, when they are taking responsibility for the well-being of their families, they are receiving no credit in their Social Security accounts, penalizing them further when the amount of their benefits are being computed.

Meeting w/ Advocates
9/25/98

CONSUMER BANKRUPTCY PRIORITIES FOR CONFERENCE COMMITTEE

I. ADOPT THE SENATE MEANS TEST WITH SEVERAL MINOR IMPROVEMENTS

- Correct the Senate's definition of median income for single family earners to avoid penalizing the elderly;
- Strike the protection from liability for creditors with claims under $1,000 that file a motion under the means test to coerce reaffirmation of debt;
- Eliminate potential personal liability for lawyers representing debtors on motions under the means test; the Senate provision creates irreconcilable conflicts of interest for lawyers representing clients in tough cases.

II. PROTECT CHILDREN WHEN THEIR PARENTS FILE BANKRUPTCY

- Strike all provisions which would expand non-dischargeability of credit card debts; debts that survive bankruptcy will inevitably compete with child support obligations;
- Protect against redirection of family income in chapter 13 to defend meritless claims of fraud;
- Strike provisions that would allow creditors to claim an interest in household goods worth less than $400;
- Allow tenants who can resume payments to their landlords to continue to use bankruptcy to preserve their families' shelter; tenants should have the same bankruptcy protections as homeowners;
- Eliminate provisions designed to increase the cost of chapter 13 repayment plans including:
    - new requirements that debtors repay car lenders and retailers more than those lenders could recover by repossession and resale of collateral;
    - requirements for unsupervised adequate protection payments to secured creditors.

III. PRESERVE SENATE 'S CONSUMER PROTECTION PROVISIONS (TITLE II OF THE SENATE BILL). Balance and fairness require protection in this legislation against unfair and overreaching lender practices. Debtors *and careful lenders* are hurt when irresponsible lenders use marketing tactics designed to encourage consumers to incur barely manageable debts at high interest rates. Honest creditors are hurt when aggressive creditors enlarge their share of a limited pie by coercing reaffirmation agreements and settlements of meritless dischargeability claims.

IV. ELIMINATE TRAPS FOR UNWARY DEBTORS WITH LIMITED FUNDS

- Consumers with no ability to pay their creditors should not be forced to pay for a pre-bankruptcy debt repayment plan which is doomed to fail;
- Strike provisions that provide for automatic (non-discretionary) dismissal for inadvertent failure to meet new filing requirements; provide debtors with an adequate opportunity to remedy errors;
- Provide for better notice to creditors without eviscerating the automatic stay and other important bankruptcy protective provisions;
- Strike provisions which can be used abusively by creditors to coerce reaffirmations;
- Enact Senate provision that allows waiver of filing fees for indigent debtors.

Nicole R. Rabner

09/25/98 12:24:25 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc: Katharine Button/WHO/EOP, Shannon Mason/OPD/EOP
Subject: Bankruptcy Meeting Today

Today's meeting at 3pm in Room 100 OEOB with outside groups on bankruptcy reform legislation will include:

Jonathan Yarowksy, Trial Lawyer's Association
Wade Henderson, US Conference on Civil Rights
Brady Williamson, former Exec. Dir. of the National Bankruptcy Commission
Melissa Jacoby, also formerly of the Bankruptcy Commisssion
Elizabeth Warren, Professor, Harvard Law School
Norma Hammes, National Association of Consumer Bankruptcy Attorneys (NACBA)
James Shulman, NACBA
Mary Reuleau, Consumer Federation of America
Joan Entmacher, National Partnership for Women and Families
Donna Lenhoff, National Partnership for Women and Families
Gary Klein, National Consumer Law Center
Frank Torres, Consumer's Union
Gene Kimmelman, Consumer's Union
Henry Sommer, Professor, Conusmer Bankruptcy Assistance Project
Maureen Thompson, Hastings Group (a part of NACBA coalition)

Message Sent To:

Sally Katzen/OPD/EOP
Sarah Rosen/OPD/EOP
Roger S. Ballentine/WHO/EOP
fran.m.allegra @ usdoj.gov @ inet
Maria Echaveste/WHO/EOP
Maureen T. Shea/WHO/EOP

NATIONAL BANKRUPTCY CONFERENCE

(a voluntary organization composed of persons interested in the improvement of the Bankruptcy Code and its administration.)

October 12, 1998

Via Facsimile 202-456-6244

Ms. Hillary Rodham Clinton
Office of the First Lady
The White House
Washington, DC

Attn: Ms. Melanne Verver
Assistant to the President and Chief of Staff to the First Lady

Dear Ms. Clinton:

The National Bankruptcy Conference, a non-partisan public interest group that has been assisting the Congress with bankruptcy legislation since 1933, urges you to reject any overtures from the leadership of the House or the Senate with respect to passage of bankruptcy legislation which is the subject of the House Conference Report. We have previously expressed to the Congress and to the President our strongest possible objection to the consumer provisions of the legislation as well as to a number of business provisions that will adversely affect the ability of small businesses to rehabilitate themselves. Our Conference is committed to bankruptcy reform, but there are many provisions in the legislation that passed the House that are punitive in nature.

We urge the President to continue his opposition to the current bankruptcy legislation and to reject any last minute deals with the Congressional Leadership as part of a solution to the budget crisis.

Our organization, which is composed of 66 academicians, judges and lawyers, stands ready during the 106th Congress to work with the President and Congress on true bankruptcy reform. If there are any questions that you or your staff might have please contact me directly at (212) 906-2332.

Most respectfully,

J. Ronald Trost, Chair
National Bankruptcy Conference

cc: Dean Douglas G. Baird
University of Chicago, School of Law

HARVARD LAW SCHOOL

CAMBRIDGE • MASSACHUSETTS • 02138

To: Nicole Rabner

Organization:

Location: Washington, D.C.

Fax Number: (202) 456-2878

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Total Number of Pages (including cover sheet) 32 Description

Notes

GKM
GERARD
KLAUER
MATTISON

Banking
Industry Report

June 11, 1996

George M. Salem, CFA
Aaron C. Clark
(212) 885-4031

BANK CREDIT CARDS:
LOAN LOSS RISKS ARE GROWING
PERSONAL BANKRUPTCIES A MAJOR CATALYST

- ***Recently Escalating Credit Card Loan Losses Are The Result Of An Explosion Of Credit Availability In 1993-1995.*** *We think the industry has probably brought this problem upon itself. Growth of losses cannot be blamed on the healthy business cycle.*

- ***Card Issuers Appear To Have Focused On Marketing Cards And Increasing Volume, Perhaps At The Expense Of Proper Underwriting Standards.*** *For example, the industry seems not to monitor the ratio of card lines or total debt to income. In bankruptcies, card debt commonly amounts to 50%-150% of debtors' annual incomes, with many filers possessing 10-20 cards. Our report attempts to analyze the genesis of this situation, investigates the status of appropriate controls, and assesses the implications.*

- ***Our Recent Survey Suggests Personal Bankruptcies And General Card Write-offs Are Changing Structurally.*** *Models based on past trends and borrower behavior are less valid as card proliferation now figures more prominently in analyzing loan losses. According to our informal survey of personal bankruptcy attorneys, bankruptcies are escalating due to easy and excessive credit, greater awareness of the simplicity of bankruptcy and the declining stigma attached to it.*

- ***Loan Losses Can Go Much Higher This Cycle.*** *Although we do not see a recession this year, loan losses are almost as high as they were at the peak of the 1991 recession. The trends cited could add up to disappointing loan losses and perhaps some disappointing banking company earnings ahead in 1996 and 1997.*

- ***We Believe Credit Cards Are The Number One Risk In Banking.*** *Although we are not changing estimates or ratings, we advise increased focus on this topic. In our universe, companies with the greatest exposure are: First Chicago/NBD* ***(HOLD)*** *and Citicorp* ***(BUY)****. Companies with moderate potential risk are: Banc One* ***(HOLD)****; Bank of New York* ***(BUY)****; Chase Manhattan* ***(BUY)****; and Wachovia* ***(HOLD)****.*

Gerard Klauer Mattison & Co., LLC
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New York, New York 10017
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Facsimile 212/338-8990

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Important disclosures on inside back cover.

KEY INVESTMENT CONSIDERATIONS

- **Aggressive Lending With Incomplete Borrower Information--A Formula For Trouble.** Over the last 30 years, banks have moved cyclically from crisis to crisis with respect to bad loans. In hindsight, the best indicator of trouble ahead was rapid growth in loans outstanding. In other words, too much of a good thing often leads to loose lending standards while chasing higher earnings. Surprisingly, there are now 7,000 VISA and MasterCard issuers, $360 billion of bank card debt, and growth in outstandings from 1992-1995 were over 20% per year. Many companies grew well above 20% annually (Exhibit 3).

- **We Believe Credit Cards Will Clearly Be The Most Troubled Loan Category For US Banks In 1996 And 1997, And The Pressure Can Only Intensify If We Have An Economic Recession.** Compared to some of the troubled loan categories of the recent past, credit cards should, in our view, impact the industry less severely than LDCs, commercial real estate or energy loans. And, we believe the number of lenders likely to experience a material adverse earnings impact will be smaller than in the 1980s. However, there are several major bank holding companies--and non-banks--with significant card exposure that could see a more measurable earnings impact, one that could escalate substantially in a recession. We do not expect crippling types of losses where earnings are severely impacted or creditworthiness of the card issuers is undermined materially.

- **Investment Strategy: We Recommend Increased Skepticism.** Although we would advise caution based upon our research, we are not reducing our estimates or ratings at this time because:

  - Sufficient evidence does not currently exist to support large loan loss increases, the need for higher loss reserves or major earnings estimate revisions.
  - Bankruptcy and economic trends seem too preliminary for strong conclusions.
  - Bankers could take action to improve loan quality in this area--if not too late.

  Moreover, the relative exposure of banks is difficult to assess since:

  - Each bank has used different credit criteria to build its portfolio. Some portfolios have been very conservatively underwritten while others are more at risk due to unsatisfactory underwriting.
  - Loss reserve levels are different from bank to bank.
  - Lending rates could be raised to offset rising loan losses.
  - Some managements can absorb the card risk and still report respectable earnings because of good earnings in their other business lines.

  However, if loan quality data on cards deteriorates sharply during the second quarter and beyond, we would revise EPS estimates and stock ratings, where appropriate. (See next section of this report and accompanying exhibits relating to sensitivity of each company's earnings to its credit card exposure--Exhibit 1).

Exhibit 1: Earnings Sensitivity to a 100 BP Increase in Net Loan Losses*

(12 Selected Banking Companies and 4 Monoline Credit Card Companies)

	Card Loans as of March 31, 1996 On Books	Securitized (Millions)	Total Managed	Securitized % of Total	Credit Card Loans as % of Total Managed	Total Managed X 225 bp** (Millions)	Card Net Inc. % of Total 1995	EPS Sensitivity to a 100 BP Increase in Net Losses* Effect on 96E	% of 96E
BHCs									
CCI	$15,900	$26,200	$42,100	62%	22%	$947	30%	$0.50	7%
CMB	13,700	9,400	23,100	41	15	520	19	0.31	4
FCN	9,700	7,600	17,300	44	24	302 (a)	27	0.32	7
ONE	7,300	4,400	11,700	38	16	263	21	0.16	5
BAC	8,900	None	8,900	--	6	200	9	0.14	2
BK	8,800	None	8,800	--	23	162 (a)	18	0.25	5
NB	5,700	2,200	7,900	28	6	178	9	0.16	2
WB	4,000	600	4,600	13	15	104	17	0.16	4
WFC #	3,900	None	3,900	--	11	88	9	0.50	2
NOB	1,600	None	1,600	--	4	36	4	0.03	1
PNC	975	None	975	--	2	22	5	0.02	1
BOAT	600	None	600	--	2	14	3	0.02	1
MONOLINES +									
KRB	$4,300	$22,500	$26,800	84%	96%	$353	100%	$0.72	36%
FUS	3,400	14,900	18,300	81	100	227	100	1.64	39
ADVNA	2,600	9,100	11,700	78	83	125	91	1.57	40
COF	2,400	7,700	10,100	76	100	127	100	0.91	39

Note: Managed basis = sum of on-the-books and securitized.

* *Our 100-basis-point increase is NOT intended to be a forecast or worst-case scenario. It is merely a reference point for earnings simulations and interpolations.*

**We assume for this analysis that all banking company card portfolios had ROAs of 225 BP in 1995.

(a) Actual. # Pre-First Interstate. + Monoline net incomes (column 6) are actual except for ADVNA, which is estimated.

Source: Gerard Klauer Mattison & Co., LLC estimates and corporate reports.

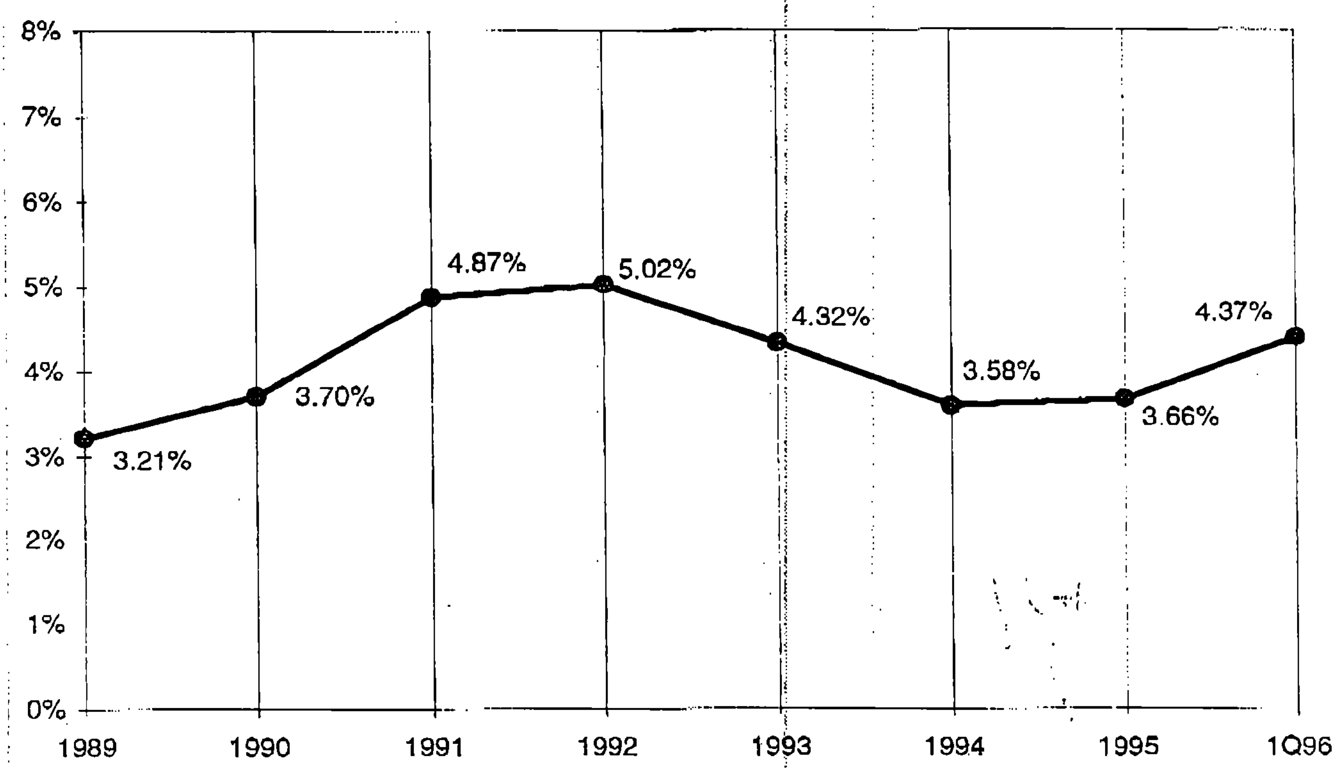
- **Watch Out For The Contagion Effect.** A clear risk to investors in companies with significant card business is for one or two companies to report a negative quarterly earnings surprise. This could be caused by a management decision to build loss reserves, regulatory requirements, a rating agency request, or other causes. Under this scenario, investors often worry about who will be next and many stocks sell off in sympathy. The card business lends itself to this risk at the present time and this phenomenon has been manifested during the last few years. We believe forecasting card losses is one of the most difficult loan quality and earnings surprise challenges facing investors.

- **Who Is Vulnerable?** As our data show, First Chicago and Citicorp are the most vulnerable in our universe (Exhibit 1). CCI has more earnings momentum outside the card to bolster earnings but both have above-average underwriting sophistication. In the moderate-risk tier are Banc One, Bank of New York, Chase and Wachovia. Wachovia is known for its excellent lending skills, while BK (processing) and CMB (merger) seem to have the best offsets to card risk. In a low-exposure category are: BankAmerica (**BUY**), NationsBank (**BUY**), Norwest (**BUY**), Wells Fargo (**BUY**), PNC (**HOLD**) and Boatmens (**HOLD**). JP Morgan (**BUY**) and Bankers Trust (**HOLD**), are not in the card business. Finally, the card specialty companies, which we do not follow, are more vulnerable than all of our bank holding companies because of their 80%-100% reliance on cards. These are: Advanta, Capital One, First USA and MBNA. The vulnerability of these companies would seem heightened by their growth stock P/Es.

- **All Chasing the "Golden Goose."** During 1994, 1995 and 1996, cards became the fastest form of loan growth. The motivation was clear--high returns on equity of 50%+ and ROAs of 250-300 basis points. These returns were pursued because few, if any, businesses in banking are as attractive. Exhibit 3 shows that card loans grew 47% on the books of these banks in the three-year period ended 12/31/95, while the specialty companies grew five times as fast--or 272%. During 1994, our universe aggregate expanded 17% to $112 billion, while the specialty companies "monolines" (companies with a single dominant line of business) grew 66% to $44 billion. In 1995, growth was similarly high--19% for our BHCs and 48% for the monolines. Neither the economy nor personal income nor bank loans in general grew anywhere close to these rates--a sign of potential overborrowing. We do acknowledge, however, that the card has been growing faster than consumer spending and borrowing due to its great convenience and other positive attributes, but the card growth still appears excessive.

- **Card Growth Driven By Direct Mail.** Most of the card growth was achieved through mailings, although affinity groups and co-branding are in a slightly different category of growth. Over the last two years (1994-1995) *five billion* card solicitations were mailed. This is equal to 32 invitations in 24 months to every American (160 million) between the ages of 18 and 64. We estimate persons receiving 32 invitations actually have been offered about $130,000 of lines of credit each. Our research indicates that the majority of individuals solicited either: (a) had more than enough credit; or (b) could never have enough, effectively making them a write-off or bankruptcy candidate.

EXHIBIT 2: NET LOAN LOSS RATIOS 1989-1996 (1Q)
AVERAGE FOR SIX SELECTED BANKING COMPANIES *



*Plots are annual averages except for 1Q96. Companies included in averages are CCI, CMB, FCN, BAC, ONE and WB.
Source: Gerard Klauer Mattison & Co., LLC and corporate reports.

No let-up in 1996

The actual totals of US card solicitations mailed, according to Behavioral Analysis Inc., were:

1995	1994	1993	1992
2.7 billion	2.4 billion	1.5 billion	900 million

Also, in 1Q96 solicitations were sent at a 2.6 billion annual rate. Thus, two key observations can be inferred from these findings: (1) there is no let-up in the rate of credit card solicitations; and (2) owing to the heavy recent mailings, and the typical two-year lag before cards go bad, *it is likely that high loss rates on card portfolios will continue well into 1997--even without a recession.*

- **Insufficient Scrutiny At Underwriting Level.** With 7,000 card issuers, overworked credit bureaus, and not all debt recorded by the credit bureaus, card issuance has taken on the character of mass-mailed advertising or promotion rather than a loan. Some of the major underwriting flaws, in our opinion, are:
  - Credit bureau data are not complete. Often home mortgage debts are not recorded, as well as credit union and some retail credit, among others. Often the individual's employment status or name of employer were not known or verified.
  - Incomplete total annual income and total debt data. In effect, loans were being made without knowing the borrower's ability to repay.
  - Number of cards held was not considered; most mailings went to persons that already had several cards. Recently, only 1% responded to mass mailings.
  - It is hard to detect changes in borrower status after an initial loan. How has the borrower's debt picture changed? Is he/she still employed? Still married? Our research indicates that the banks usually don't know.

In sum, while there were many sophisticated, technology-driven approaches to choosing potential cardholders, we believe the competitive situation, overcapacity and drive for business led most issuers into very aggressive loan underwriting practices. Also, we believe the degrees of underwriting sophistication of the largest issuers are not that different.

Finally, exacerbating this situation, the issuers, in our opinion, have chosen to extend credit to individuals in a lower stratum of the creditworthiness spectrum compared with prior cycles. A Federal Reserve Survey shows that 24% of families earning under $10,000 per year had card debt in 1992 compared to 11% in 1983 and 13% in 1989. Similarly, families in the $10,000-$25,000 bracket rose from 27% in 1983 to 43% in 1992. By contrast, card usage by families earning over $25,000 to $50,000 was flat and over $50,000 card usage declined. This trend to more card usage in lower income brackets is contributing to today's higher losses. These persons don't handle credit well, and/or qualify for little credit based on capacity to repay.

OUR THESIS VERSUS CONVENTIONAL WISDOM

Too much credit was issued with too little information

The consensus view regarding the 1995-1996 rise in card loss ratios is to attribute it to the economic cycle, the weak economy, unemployment, divorce, medical expenses, uninsured car accidents, small business failure--and escalating bankruptcies. *We think the proliferation of cards issued is the principal reason behind the escalating card losses.* In our opinion, too much credit was issued with too little information and not enough control on the part of issuers. This is a classic formula for rising losses--regardless of the business cycle. Some cardholders accumulated 10-20 cards, ran them up to the limit and then had no choice but to seek bankruptcy. We believe bankruptcies are escalating in 1995-1996 because of the heavy 1994-1995 credit card mailings which are only now showing up with a lag as loan losses. It takes time to use all of one's cards to their maximum credit limit. Many of these cards arrived "preapproved," requiring only a signature and some minimum data in order to receive the card.

We believe this era of rising card losses marks a fundamental departure from prior eras in that there is more willingness to choose bankruptcy and more credit than incomes can service. We see no evidence that any of the other factors are escalating. We think economists should examine debt service-to-income ratios *by income levels*. We believe this would show higher ratios for the middle class with incomes from, $20,000-$40,000, where card debt seems most burdensome, and lower ratios at higher income levels--say above $75,000. Thus, the widely-followed consumer debt-to-income ratios, even though rising, are somewhat misleading as to where debt burden truly lies.

Exhibit 10 shows the debt-service ratio for 1960-1995. Note that the fourth quarter of 1995 was just below 17%, while the historic high was 17.6% in the final quarter of 1989.

Bankruptcy: An Escalating Trend

We believe bankruptcy is an escalating trend for the following reasons:

- Debt burdens are rising due to loose bank credit.
- There is now greater awareness of the ease of filing for bankruptcy.
- The traditional stigma of filing has declined.

We expect bankruptcies to rise steadily in 1996-1997 and as a percentage of net loan losses, at annual rates of increase well above the 12% reported in 1995. Most attorneys we surveyed cited credit cards as the main cause of the escalation of bankruptcy. Bankruptcies now account for 40%-50% of net losses at large card issuers--a rising ratio for many. Dollar amounts of bankrupt debt are rising commensurately.

Bankruptcies to rise 31% in 1996 versus 12% in 1995

Exhibits 7 and 8 show quarterly and annual bankruptcy filing data for individuals. Historically, personal bankruptcy rates have coincided with economic recessions. As Exhibit 8 illustrates, the peak annual increase in personal bankruptcies of 21% coincided with the recession of 1991 and was followed by absolute declines in 1993 and 1994. However, in our opinion, the cyclical pattern has been broken, and we project increases of 31% in 1996 despite the strong economy.

Exhibit 7 shows year-over-year increases rising from a modest 3% for 1Q95 to an actual 26% in 1Q96, with higher projected figures later in 1996. (See Exhibit 9 for the 1991-1996 ratio of bankruptcies to *gross* card losses.) These industry data are lower than the data for specific companies within our universe, many of which are based on *net* loan losses. Our companies are now experiencing 40%-50% bankruptcies to net card losses. It could be that our large banking companies have higher bankruptcies because they sent more preapproved mass mailings. Quarterly breakouts in Exhibit 7 show the acceleration in growth rate in late 1995.

Non-Bankruptcy Losses Should Not Be Underestimated. Our thesis regarding rising card losses relates equally to non-bankruptcy credit card losses. These are also rising, in our opinion, due to lax credit standards by the banking industry. It just happens that bankruptcies are outpacing an existing and rising general card loss escalation. It appears that bankruptcy is quicker, and its appeal is growing.

A New Leading Indicator? Based on our analysis, we believe Federal Court data on bankruptcy filings lead bank charge-offs by one to two quarters due to the delays in booking bank losses. Also, court notifications to lenders can take up to two weeks to be sent.

The Past Is No Guide To The Future. Forecasting The Peak In Write-offs Is Very Difficult

When trying to forecast current card losses, we would not look to the past as a guide. If a correlation were made, losses should be lower now because we are not yet in a recession. We also believe that the past should not be used as a guide to computer models that predict consumer borrowing and default behavior in sophisticated credit scoring models such as those of Fair, Isaac Company (a credit scoring firm) and internal lender models.

We have listed below a number of factors that we believe make this cycle different from prior cycles, thus rendering traditional tools and rules less reliable.

- Number of card holders is at record levels.
- Number of cards per borrower is up significantly.
- Greater acceptance of cards encourages greater borrowing.
- Airline mileage plans are very enticing and increase card usage and debt.
- Higher ratios of card lines to net income.
- Many cardholders are less creditworthy (higher credit risks) than in the past. Many cardholders are without jobs. Among these are heavy mailings to college and high school students.
- Marketing of bank cards seems significantly more aggressive.
- Intense competition--there are 7,000 issuers of bank cards, many of which intensified their involvement in recent years.
- Hundreds of first-time issuers in the 1990s eager for market share in this high-profit business segment.
- Companies with single business lines (monolines) and other non-bank financial institutions were minor players in prior cycles. Now three of the top five, and seven of the top 10 card issuers are non-banks (See Exhibit 11). Affiliated with some of these non-bank (and bank) competitors are large, well-respected companies such as Sears, AT&T, Household Finance, American Express, American (and other) Airlines, Ford and GM, whose presence has brought marketing and financial muscle to the industry.

We believe current high loss rates can be attributed to the issuing banks. Our rationale is that if lines of credit were fewer and lower, then losses would by definition be lower. In other words, we think a person earning $30,000 is probably entitled to a $5,000 line of credit--which he could likely handle. However, when encumbered with $25,000 in credit lines (and debt), it is much more likely that he will go bankrupt from inability to service debt or simply default.

We believe that the highest credit card loss rates will not be known until after the next recession. And, that could be 200 basis points (or more) higher than current levels of 400-500 basis points--levels that could reduce earnings of exposed companies materially.

Political risks growing

We recognize that it is the borrower who does the defaulting, not the banks. While undisciplined borrowers are clearly major culprits in the present debacle, we believe if the banking industry had been monitoring this situation more closely there would not be such a proliferation of excessive levels of credit.

This is a clear political risk. Consumer oriented members of Congress could go public at any time with criticism of the card lenders for: (1) allowing borrowers to accumulate debt far faster than the growth of their incomes; and (2) the use of "teaser" rates--which less educated borrowers probably do not understand to be only temporary rates which can triple overnight.

In our view, all participants in the card lending business should review their strategies and tighten underwriting in light of the loan quality and profitability challenges facing the industry.

Some Potential Blindside Risks

Here is a list of major potential risks facing card lenders:

- **Capital Adequacy.** Regulators and/or rating agencies may ask for more capital for card risks--especially off balance sheet. More risk requires more capital.
- **Loss Reserves.** Banks and monolines are generally weak in this area. Regulators, rating agencies and the SEC could make statements here to beef up reserves.
- **Jawboning.** Regulators could call for a slowdown of growth of cards and tighter credit.

In short, the card business is now at a state where such regulatory surprises are a growing likelihood.

ANALYSIS OF CARD EXPOSURE OF INDIVIDUAL BANKING COMPANIES

Clearly, cards are a portfolio "concentration" at some banks, and thus a potential credit and earnings risk.

Five Key Criteria For Analyzing Card Vulnerability

- **Size.** In this context, size refers to outstandings (and commitments) as a proportion of loans and earnings. (See Exhibits 1, 3 and 4.) They can be found under the category "managed loans," which are the sum of on-the-books and securitized loans. Securitized loans are a large percentage of the total for CCI (62%), FCN (44%), CMB (41%) and ONE (37%). For the monolines, this ratio is about 80%. Exhibit 1 shows the proportion of each company's loans represented by cards on a managed basis. The range is wide, with three above 20%: FCN (24%), BK (23%) and CCI (22%). More important than card proportion of loans is card proportion of earnings. Exhibit 1 shows the estimated proportion of 1995 income assuming all card portfolios have ROAs of 225 basis points (FCN's and BK's are actual 1995 card earnings). The leaders here are CCI (30%) and FCN (after its merger with NBD) (collectively 27%). Card commitments (the sum of used and unused lines of credit) are also a measure of size. These are shown in Exhibit 4. For example, Citicorp has card lines of $143 billion, of which $45 billion, or 31%, were drawn and outstanding. Exhibit 4 also illustrates that CCI's commitments as a multiple of outstandings have risen sharply--from 1.4x in 1992 to 3.2x in 1995. On a cards outstanding basis, CCI has the highest loan concentration in this area at 2.4x common equity. FCN is 2.2x. For total commitments, FCN is almost 12x equity and CCI is 8x. We realize that commitments will never be fully drawn, but the lines are there and could be drawn upon to a greater degree, especially given management's limited capacity to restrain it. *Finally, with so much unused credit, it seems obvious to us that the industry should slow their marketing of new cards.*

WB, ONE and FCN grew fastest

- **Growth.** WB had the highest growth in outstandings for the three-year period at (105%), followed by ONE (102%) and FCN (86%). Large players with relatively low growth include BAC (10%), CCI (30%) and CMB (45%). The slow growth was not all planned but was due, at least in part, to the unwillingness to cut rates to compete and loss of market share. Exhibit 4 shows commitment growth for 1992-1995. However, we would reiterate that our analysis reveals that there is a strong correlation between high growth and the subsequent degree of problem loans throughout banking history.

- **Loan Quality.** Delinquencies and charge-offs are the basic data generally analyzed for signs of bad loans. (See Exhibits 5 and 6.) Delinquency ratios have been rising, but at a low rate, since year-end 1994. Banks with the largest increases relative to one-year ago are BK (62 basis points (bp), ONE (52 bp) and FCN (47 bp). CMB is down and CCI is up modestly. Monoline numbers are up 102 bp on average versus 28 bp for the bank holding companies. We believe that delinquencies are less reliable as early indicators of loan trouble today than they were historically. We believe this relates to the proliferation of bankruptcies, which often occur without delinquency. Also, charge-offs reduce delinquencies.

Charge-offs up across the board

Charge-offs are far more important since they affect the loss reserve and, usually, dollar-for-dollar, the income statement. Exhibit 5 shows charge-offs for the year 1994 and by quarter since 1Q95. None of the 10 companies shown has escaped the sharp adverse change--more evidence, in our opinion, that this is a structural problem. Versus 1Q95, average charge-offs at the six bank holding companies are up 95 bp, or 26%, to 4.60%. The monolines deteriorated faster--by 113 bp, or 51%, to 3.34%.

EXHIBIT 3: CREDIT CARD MANAGED OUTSTANDINGS 1992-1995*
(Millions) **(12 Bank Holding Companies (BHCs) and 4 Monolines)**

	At December 31,				% Change to 12/31/95 from:		
	1992	**1993**	**1994**	**1995**	**1992**	**1993**	**1994**
BHCs							
CCI	$34,100	$34,000	$38,500	$44,200	30%	30%	15%
CMB	16,300	17,400	19,700	23,700	45	36	20
FCN	9,400	11,400	13,100	17,500	86	54	34
ONE	5,700	6,900	8,400	11,500	102	67	37
BAC	8,300	7,500	8,000	9,100	10	21	14
BK	5,200	6,200	7,600	8,700	67	40	14
NB	4,400	4,900	5,900	7,400	68	51	25
WB	2,200	3,100	4,100	4,500	105	45	10
WFC	2,800	2,600	3,100	4,000	43	54	29
NOB	1,700	1,800	2,500	1,700 (a)	0	-6	-32
PNC	730	730	840	1,000	37	37	19
BOAT	380	460	550	540	42	17	-2
Total	**$91,210**	**$96,990**	**$112,290**	**$133,840**	**47%**	**38%**	**19%**
Monolines							
KRB	$9,900	$12,400	$18,700	$26,700	170%	115%	43%
FUS	2,900	5,400	11,000	17,500	503	224	59
COF	1,900	4,800	7,400	10,500	453	119	42
ADVNA	2,700	3,900	6,500	10,000	270	156	54
Total	**$17,400**	**$26,500**	**$43,600**	**$64,700**	**272%**	**144%**	**48%**

* Includes on-the-books and securitized.
(a) Decline caused by sale of loans.

Source: Gerard Klauer Mattison & Co., LLC estimates and corporate reports.

Exhibit 4: Credit Card Commitments and Cards Outstanding 1992 - 1995*

(Millions) (10 Bank Holding Companies (BHCs) and 3 Monolines)

	Credit Card Commitments* At December 31,				Multiple of Commitments to Outstandings				Multiple of 12/31/95 Com. Equity (Managed Basis):		Year-End Outstandings as a % of Commitments
	1992	1993	1994	1995	1992	1993	1994	1995	Cards Outstanding **	Total Card Commitments	
BHCs											
CCI	$98,800	$105,800	$114,600	$142,500	1.4 x	3.1 x	3.0 x	3.2 x	2.4 x	7.9 x	31%
CMB	53,300	62,300	67,200	71,300	3.3	3.6	3.4	3.0	1.2	3.7	33
FCN	NA	60,700	78,100	94,200	NA	5.3	6.0	5.4	2.2	11.7	19
ONE	22,000	23,700	42,600	61,700	3.9	3.4	5.1	5.4	1.4	7.2	19
BAC	33,200	31,000	36,100	43,600	4.0	4.1	4.5	4.8	0.5	2.4	21
BK	NA	17,300	23,100	27,600	NA	2.8	3.0	3.2	1.6	5.1	32
NB	NA	12,800	15,900	21,000	NA	2.6	2.7	2.8	0.6	1.6	35
WB	7,000	6,800	10,100	11,600	3.2	2.2	2.5	2.6	1.2	3.1	39
WFC	8,100	8,600	10,900	12,600	2.9	3.3	3.5	3.2	1.1	3.5	32
MONOLINES											
KRB	$60,000	$70,200	$82,800	$116,400	6.1x	5.7x	4.4x	4.4x	7.6x	32.9x	23%
FUS	Not available										
COF	4,200	10,600	16,400	23,700	2.2	2.2	2.2	2.3	17.5	39.5	44
ADVNA	11,700	16,000	24,700	33,300	4.3	4.1	3.8	3.3	14.9	49.5	30

* Includes on-the-books and securitized credit card outstandings.

** See Exhibit 3 for year-end 1995 card outstandings.

NA - Not Available.

Source: Gerard Klauer Mattison & Co., LLC estimates and corporate reports.

Exhibit 5: Credit Card Delinquency and Charge-Off Trends--10 Selected BHCs and Card Companies

Days Past Due	BHCs	Delinquency Ratios: Period End 12/94	3/95	6/95	9/95	12/95	3/96	Chg. (bp) to 1Q96 from: 4Q95	1Q95	Average Charge-Off Ratios: 1994	1Q95	2Q95	3Q95	4Q95	1Q96	Incr. (bp) to 1Q96 from: 4Q95	1Q95
90	CCI	1.64%	1.71%	1.55%	1.57%	1.66%	1.80%	14	9	3.95%	3.59%	3.74%	3.72%	3.89%	4.38%	49	79
90	CMB	2.47%	2.28%	2.12%	2.23%	2.36%	2.15%	-21	-13	4.30%	3.92%	4.09%	3.98%	4.18%	4.66%	48	74
30	FCN *	5.20%	5.07%	5.07%	5.53%	5.78%	5.54%	-24	47	3.60%	3.80%	4.00%	4.00%	4.40%	4.80%	40	100
30	BK **	3.09%	3.23%	3.19%	4.00%	3.90%	3.85%	-5	62	2.68%	3.34%	3.17%	3.31%	3.95%	4.48%	53	114
60	BAC	1.91%	2.14%	2.00%	1.91%	2.08%	2.23%	15	9	4.50%	3.84%	4.41%	4.28%	4.20%	4.62%	42	78
30	ONE	3.77%	3.93%	3.77%	4.01%	4.22%	4.45%	23	52	3.52%	3.42%	3.84%	3.82%	4.44%	4.64%	20	122
MONOLINES																	
30	FUS	2.50%	2.80%	2.96%	3.29%	3.57%	4.04%	47	124	3.22%	2.13%	2.21%	2.88%	3.10%	3.36%	26	123
30	KRB	3.03%	3.00%	3.23%	3.56%	3.70%	3.85%	15	85	2.59%	2.64%	2.64%	2.71%	2.74%	3.28%	54	64
30	COF	2.95%	3.12%	3.07%	3.37%	4.20%	4.51%	31	139	1.48%	1.88%	2.10%	2.35%	2.58%	3.53%	95	165
30	ADVNA	2.00%	2.10%	2.00%	2.30%	2.60%	2.70%	10	60	2.50%	2.20%	2.40%	2.50%	2.60%	3.20%	60	100
AVERAGES																	
	6 BHCs	3.01%	3.06%	2.95%	3.21%	3.33%	3.34%	0	28	3.76%	3.65%	3.88%	3.85%	4.18%	4.60%	42	95
	4 Monolines	2.62%	2.76%	2.82%	3.14%	3.52%	3.78%	26	102	2.45%	2.21%	2.34%	2.61%	2.76%	3.34%	59	113
	All 10 Cos.	2.86%	2.94%	2.90%	3.18%	3.41%	3.51%	11	57	3.23%	3.08%	3.26%	3.36%	3.61%	4.10%	49	102

* FCN's delinquency ratios are from a securitized pool Master Trust II and may not be representative of entire portfolio.
** BK's delinquency ratios for 12/31/95 and 3/31/96 are our estimates.

Source: Gerard Klauer Mattison & Co., LLC estimates and corporate reports.

EXHIBIT 6: 1Q96 REPORTED CARD LOSS RATIO VS. LOSS RATIO LAGGED TO 1Q95 OUTSTANDINGS

	1Q96 Net Card Losses (Mil)	Net Loan Loss Ratios*: 1Q96 Reported **	Net Loan Loss Ratios*: 1Q96 losses to 1Q95 Avg. Outstandings +	Increase (bp) Using Lagged Method
BHCs				
CCI	$467	4.38%	5.04%	66
CMB	270	4.66	5.60	94
FCN	206	4.80	6.46	166
ONE	150	5.09	7.07	198
BAC	103	4.62	5.35	73
BK	96	4.48	5.21	73
NB	53	3.22	4.67	145
WB	32	2.82	3.18	36
WFC	81	8.25	10.37	212
PNC	11	4.58	5.64	106
BOAT	7	4.33	4.72	39
MONOLINES				
KRB	$222	3.28%	4.60%	132
FUS	151	3.36	5.27	191
ADVNA	84	3.20	5.02	182
COF	91	3.53	4.75	122

* Loan loss data is on a managed basis.
** 1Q96 losses (annualized) divided by 1Q96 average card outstandings.
+ 1Q96 losses (annualized) divided by 1Q95 average card outstandings.

Source: Gerard Klauer Mattison & Co., LLC estimates and corporate reports.

Among bank holding companies, ONE experienced the sharpest year-over-year deterioration at 122 bp or 36%. For the monolines, COF was the worst and KRB, the best. Last quarter, both deteriorated an average of about 50 bp versus the *past three months. All in all, we think this paints an ominous picture.*

- **The "Lagged" Charge-off Ratio.** Many investors remove credit card portfolio growth in the latest year when calculating the charge-off ratio. Growth artificially reduces the ratio (of losses to average loans) since losses develop only after about two years. Thus, when growth occurs the numerator of the equation does not change, but the denominator does.

  Exhibit 6 shows how much higher the loss ratio would be on a lagged basis. On this basis, WFC (pre-FIB) at 212 bp, or 26% higher, is the worst, followed by ONE (197 bp), FCN (166 bp) and NB (145 bp). The monoline average is 160 bp higher than as reported.

  Clearly, this growth calculation is a useful analytic tool for forecasting write-offs. It also is a more realistic indicator of where charge-offs are right now. FCN and ONE are well above 6% on this basis--a level which is likely to erode the profits of the card business, and overall profits for their companies. The card business is very profitable at loss rates of 300-400 bp; at 600 bp, we believe earnings disappointments are likely to appear. Finally, as soon as growth of loans slows, actual net loss ratios should escalate.

- **Credit Culture.** We believe this is the most important factor in assessing a loan portfolio's quality but the most difficult to measure because it is intangible. It can only be known over time as it measures the entire process of risk assessment (its conservatism or aggressiveness), including the credit review processes after loans are made. It is more difficult to differentiate one bank from another when it comes to credit card issuance. We think the best approach is to analyze their underwriting standards. The proof will be in the loan losses, once the cycle is fully played out. Finally, while "high-tech" underwriting is supposed to be an advantage, we believe that this is an overrated method of loss prevention. In our opinion, these techniques are designed more to generate loans than to avoid losses.

Loss Reserve Adequacy: Caution Is Advised

Are delinquent cards NPLs?

Many investors use the reserves-to-nonperforming-loans ratio to measure reserve strength. We think this can be misleading since delinquent cards are not part of NPLs. Thus, high card delinquencies are not reflected in the NPLs/loans ratio and can allow reserves to appear stronger than they really are. Perhaps 90-day card delinquencies should fall under NPLs.

How Card Deterioration Could Affect Earnings

While card profits of 50% ROE and 250-300 bp ROA were once common, current figures are well below those now--and we believe still headed lower. If the card, for example, is now earning only 200 bp ROA it would not take much loan loss erosion to cut that in half--about 150 bp more loan losses (pretax) to be precise. *We think that could happen.*

Effects on Bank Earnings of Growth in Card Losses

Unfavorable	Favorable
• Rising losses translate directly to the loss provision and earnings reduction.	• Introductory "teaser" interest rates roll up to permanent (go to) rates.
• Securitized losses also directly impact earnings.	• Teasers could be discontinued on new loans, lifting portfolio yields.
• Loss reserves may need building, i.e., provisions exceeding losses.	• Weak credits are priced up (on APR basis) by 400-500 bp.
• Securitized pools may need larger credit enhancements.	• Less marketing expense for new loans.
• Interest non-accruals grow, reducing net interest income.	• Fees are increased for lateness, exceeding credit limits, etc.
• Slower growth means less earnings.	
• Collection expense grows.	

Earnings Sensitivity: An Interpolation Tool

Earnings threat is material but not life threatening

Exhibit 1 shows the after-tax EPS effect on 1996 earnings estimates of a 100 bp increase in card net loan losses. FCN and CCI appear to have the highest risk. These are not forecasts but data to put 100 bp of loss in perspective. If it were 200 bp for CCI, for example, yearly earnings would be reduced $1.00 per share, *other factors being equal.* Note also that 100 bp *annually* takes *four quarterly reductions of $0.125, to total $0.50* annually. If, in addition, loss reserves of 50 bp needed to be built that would be another $0.25 per share. Exhibit 1 shows that the card threat is not a disaster looming but an earnings growth challenge for our 12 BHCs. For the monolines, the effect of 100 bp higher losses could be disastrous since the effect is five times as severe as the worst bank. This is especially true since these companies are known for their low loss reserves--and low equity capital on a fully-managed basis.

Although Exhibit 1 assumes all companies are equal, several, in fact, have offsets to card deterioration. Citicorp has powerful earnings from emerging markets. Bank of New York has extremely profitable securities processing plus it might sell 40% of its card business in 1Q97 (see our report dated April 9, 1996). Chase has its positive merger scenario, as does Wells Fargo. BankAmerica and NationsBank also have strong earnings momentum. Even Advanta and First USA have non-card earnings to draw from.

FCN and ONE Seem Most Vulnerable. Our analysis suggests First Chicago/NBD and Banc One are most vulnerable to the card threat. They have grown rapidly, have large exposure and not enough other earnings momentum. In the case of FCN, we believe their credit underwriting is more sophisticated than ONE's.

Securitization: Hidden Risks

Exhibit 1 lists lenders with securitized loans. The following facts regarding securitized card loans have been verified with rating agencies, regulators and some bank managements.

- They are *not sold*; they are only off the balance sheet as a financing device.
- They are part of the bank income statement.

Many pitfalls here

- Rising losses from securitized loans impact banks' income statements to *exactly the same degree as on-balance-sheet loans*; they are merely recorded in a different place on the income statement. Rising securitized loan losses reduce *non-interest income* while on-balance-sheet losses impact the *loss provision*.
- There should be equal loss reserves for securitized and on-balance-sheet card loans. Yet, in fact, there are far fewer reserves taken for securitized card loans. A check of each company's specific reserves, would show that the monolines are especially weak here.
- Equity capital in full should be provided for securitized loans. Again, monolines are weaker.
- Higher losses on securitized pools of loans could result in expensive additions to credit enhancements which secure the bonds backed by the cards. Under a very pessimistic scenario, the cards could come back on the books of an issuer--thus clearly manifesting the need for capital and reserves and negatively impacting earnings as well. Finally, such additional enhancements are embarrassing to the card issuer and can severely tarnish its credit rating.

Complex Analysis

We believe card loan quality will be an issue this year and for a number of years to come. Our focus in the future will be on individual companies as they face the significant challenge represented by the deterioration of card loan quality. Perhaps the SEC should introduce disclosure rules for the benefit of shareholders of BHCs and other financial institutions where the credit card is a material business.

OUR SURVEY ASKS: WHY ARE PERSONAL BANKRUPTCIES RISING NOW?

During the last three to six months, most banks have noted that the proportion of total credit card losses attributable to bankruptcies is rising. At the same time, total losses were escalating as well. Regarding bankruptcies, bankers have no explanation for the rise, or forecast for which accounts would go bad. As a result, we conducted an informal survey of approximately 30 personal bankruptcy attorneys in five large states asking the question: Why are personal bankruptcies escalating now?

Initially, we spoke to a number of leading law professors with expertise in bankruptcy law. We followed that with either a telephone call or in-person survey.

A Deviation From The Historical Norm

Attorneys: Easy bank credit behind bankruptcy escalation

Historically, bankruptcy and card losses have followed a cyclical trend, essentially tracking rises in unemployment, as well as other contributing causes. Exhibit 8 illustrates that increases in 1990 and 1991 were cyclical. *The vast majority of attorneys surveyed attributed the cause of escalating current personal bankruptcies to the ease of obtaining credit, in amounts well beyond the individual's annual income.* Blizzards of *pre-approved* credit cards have saturated the mails in recent years. Creditworthiness took a back seat to marketing cards, in many cases to persons already possessing five to 10 cards.

Not Caused By the Business Cycle. We believe easy credit has contributed to the rise in bankruptcies--irrespective of the business cycle, which has been rather steady in 1995-1996. It seems obvious to us that if the person earning $30,000 annually were not allowed to have credit in an amount equal to or greater than his/her annual income in credit card lines, the likelihood that he would go bankrupt would be severely diminished. Monthly debt service payments for individuals at this income level became impossible to meet in 1995-1996. In sum, the historic correlation between bankruptcies and the business cycle has now been broken (Exhibits 7, 8 and 9). We believe the rise in 1985-1986 bankruptcies might be a predecessor of today's situation. There were heavy card mailings at that time as well.

Reap What You Sow. It normally takes 18 months from the time a card is issued until it goes into default. An extended period of time must now be factored into that year-and-a-half general rule of thumb, because multiple cards and higher credit limits allow borrowers to delay, but usually not prevent, the day of judgment. Thus, the heavy 1994-1995 mailings are just now being harvested, and we would expect loss ratios to rise from first-quarter levels (Exhibit 5)--even without a recession--through 1997. Bankruptcies should continue to rise as a percent of losses, but non-bankruptcy charge-offs should rise as well because some debtors do not want to declare bankruptcy.

Structural Change With No Past Reference Point. To sum up, banks and other credit card issuers flooded the nation with credit, and this has produced a not-so-surprising rise in charge-offs--from both bankruptcies and defaults not connected to bankruptcy. This is a structural change from the past. In our opinion, the past can no longer be used as a guide to future losses in the card business.

EXHIBIT 7: QUARTERLY CONSUMER BANKRUPTCY FILINGS (1Q94-4Q96E)

Three Months Ended	Consumer Filings * (000)	% Change From Year Prior	% Change From 3 Mos Prior
3/31/94	193	NA	NA
6/30/94	203	NA	5%
9/30/94	196	NA	-3%
12/31/94	189	NA	-3%
3/31/95	199	3%	5%
6/30/95	222	10%	11%
9/30/95	221	13%	0%
12/31/95	232	22%	5%
3/31/96	252	26%	9%
6/30/96 E	280	26%	11%
9/30/96 E	295	33%	5%
12/31/96 E	320	38%	8%

NA - Not available.

Source: Gerard Klauer Mattison & Co., LLC estimates and The Administrative Office of the US Courts' records.

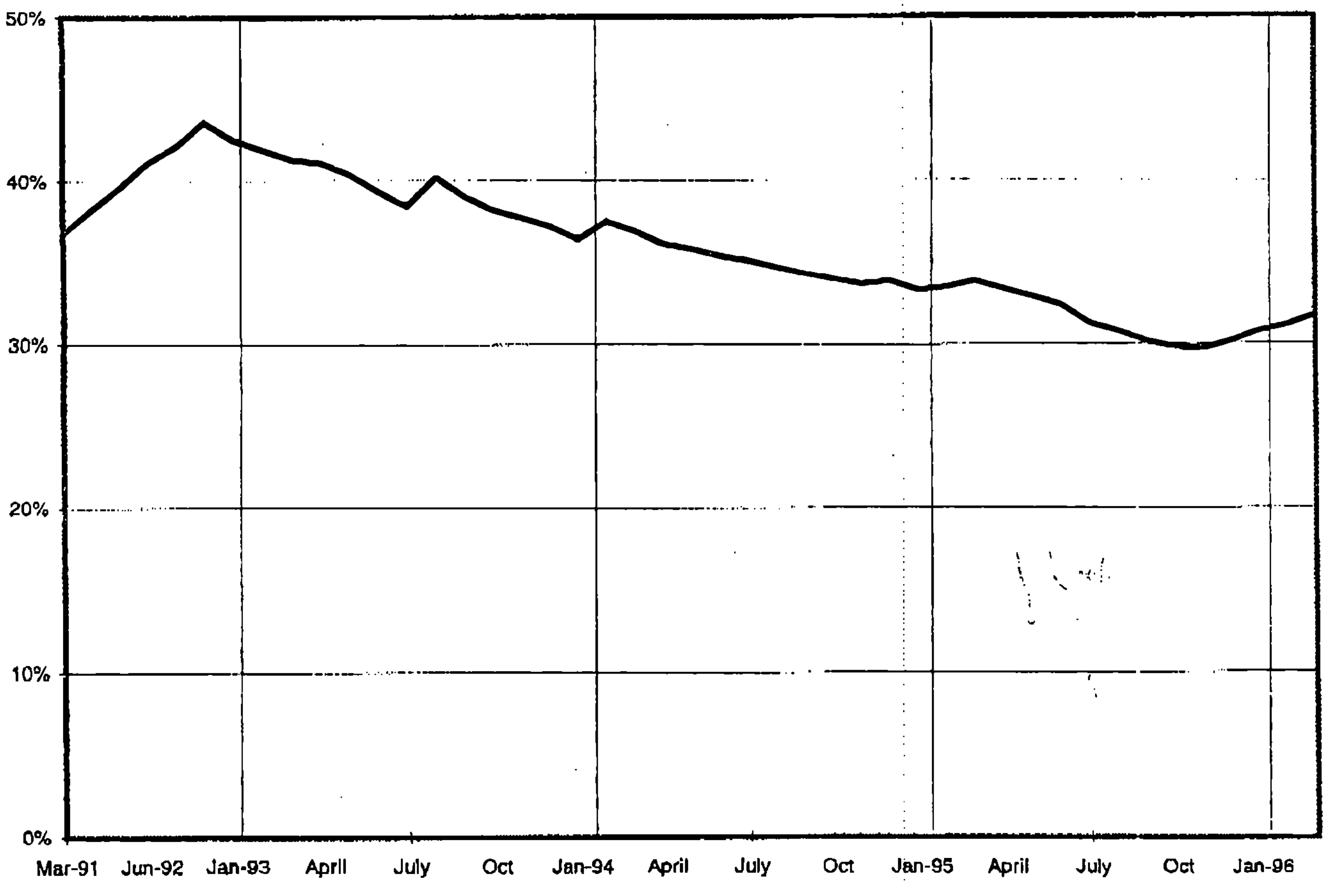
EXHIBIT 8: ANNUAL CONSUMER BANKRUPTCY FILINGS (1982-1996E)

Full Year Total	Consumer Filings* (000)	% Change From Prior Year
1982	311	NA
1983	287	-8%
1984	284	-1%
1985	341	20%
1986	449	32%
1987	496	10%
1988	550	11%
1989	616	12%
1990	718	17%
1991	872	21%
1992	901	3%
1993	813	-10%
1994	781	-4%
1995	875	12%
1996E	1,147	31%

* Consumer filings represent over 90% of total bankruptcies and exclude business filings. They include Chapter 7 (majority) and Chapter 13.
NA - Not available.

Source: Gerard Klauer Mattison & Co., LLC estimates and The Administrative Office of the US Courts' records.

EXHIBIT 9: BANKRUPTCIES AS A PERCENTAGE OF GROSS CARD LOSSES MAR 91 TO MAR 96



Source: RAM Research Group.

Our Bankruptcy Survey Findings

- **The Bankruptcy Law Has Not Become More Favorable To Debtors.** Contrary to conventional wisdom, the 1994 revisions to the Federal bankruptcy law *strengthened creditors' rights* to disallow all debts incurred within 60 days of filing. Although the bankruptcy statute is Federal law, each state dictates the amount of exempt property that creditors cannot claim. Florida and Texas are the most debtor-friendly states.
- **The Stigma of Bankruptcy is Diminishing.** With so many doing it, and morality in the US down, more are willing to declare bankruptcy. It costs about $700-$1,000 to go through personal bankruptcy proceedings, and the 7-10 year wait which creditors say one must endure for credit to be restored seems not to be a deterrent or even true. In fact, the real wait for new credit is 1-3 years, owing to the abundance of lenders willing to take on a person with a clean start. One attorney told us that two national department stores even show up in court to grant new credit to filers. There are 10,000 consumer lenders in the US. Individuals who have gone bankrupt usually get credit in one to two years after filing. There are also examples of second filers for bankruptcy--six years apart--which proves you do get credit a few years after filing.
- **Lawyers Are Aggressively Advertising.** Radio, TV and newspapers today are filled with ads detailing the ease of bankruptcy and how you can extinguish all of your debt, keep possessions and regain credit. From start to finish, it takes two to three months to complete a bankruptcy. Some lawyers seek out weak debtors to convince them that bankruptcy should be pursued--the burden of payment being too painful for them to handle. Banks don't spend much time or money trying to collect from debtors who have gone bankrupt--it is expensive and futile.
- **Few Are Refused.** Lawyers tell us that judges approve over 99% of bankruptcy filings. The law is very consumer friendly and designed to give overburdened debtors a fresh start in their finances.
- **Many Have No Choice.** As mentioned earlier, many debtors cannot possibly begin to pay back what they owe. They find a bankruptcy attorney quickly, and the bankers do not even contest their claims in court. Attorneys instruct debtors to stop servicing debt as soon as bankruptcy is sought, which helps to explain why bankruptcy occurs so much on performing loans.
- **Debtors Calculate That Bankruptcy is the Better Route.** Many could never get out from under their debt burden without bankruptcy.
- **Fraud Not a Major Factor.** We explored this issue and found strong agreement that most people declaring bankruptcy under Chapter 7 liquidation of assets (70% of cases), or Chapter 13 for the repayment of some debts over, say, five years, could be characterized as well-intentioned people, whose purchases were household items, not luxuries. Although there is some fraud, the basic culprit appears to be too much credit and the ease of availability.
- **A Leading Indicator of Bank Card Losses.** Data are available quickly from Federal courts regarding the number of personal bankruptcies filed per week, and per month. It is our belief that by the time the creditors are notified, record, and actually charge-off a claim, it could take several months. Thus, we believe the escalation in filings in 1Q96--plus our gathered data for April and May--will show up as higher charge-offs on the lenders' books in 2Q96, 3Q96, etc.

Profile of a Personal Bankruptcy Filer

Based on our anecdotal survey, here are some key attributes of personal bankruptcy filers:

- **Age Range.** 30-40.
- **Annual Income.** $30,000.
- **Credit Card Debt.** $25,000-$40,000, but often 50%-150% of annual income.
- **Number of Cards.** 10-12 or more, with full credit line drawn at about $4,000 per card.

Clearly too much debt for income level

- **Debt Service.** Assuming gross salary of $30,000, $1,650 monthly disposable income, and $25,000 in card debt at 15% APR; debt service monthly is $312 interest and $750 principal--assuming 3% of debt (minimum) must be paid per month. Total = $1,062 or 64% of disposable income, leaving $600 monthly for all other bills, including mortgage and auto.
- **Solicitations Continue.** Several attorneys reported to us that even while in the process of filing bankruptcy, unsolicited card offers were still arriving in their clients' mailboxes.
- **Many Do Not Lose Possessions.** Under a Chapter 7 (liquidation) it is quite common for a debtor to come away losing no assets while newly debt free. This is especially true of renters, not homeowners. Chapter 13 bankruptcies involve future scheduled payments of some debts in order to retain assets, such as homes, autos, etc. However, the vast majority of personal bankruptcies are Chapter 7s.
- **Record Levels of Bankruptcy.** Several attorneys told of record monthly business in early 1996, which they attribute directly to the flood of credit cards. Proliferation of cards may have delayed the bankruptcies but they ultimately drove the borrower into the attorney's office. Our anecdotal data for April and May 1996 indicate a continuation of year-over-year (versus 1995) increases of 25%-35%.

CREDIT CARDS ARE INHERENTLY RISKIER THAN MOST OTHER BANK LOANS

The more traditional, conservative senior bank credit executives were never fond of credit card lending. They think credit card lending is a risky form of loan that produces losses well above the loss rates of other consumer and commercial loans.

Some Rewards Are Worth The Risks

Over time, the pleas of the purists and traditionalists were overwhelmed by the alluring profitability of the card business, namely ROAs in the 300 basis points (or more) range and ROEs above 50%. Just about everyone jumped in. Who could resist? Without cards, banking is a close to 100 basis point ROA business today. In other words, returns on cards were triple those of all other businesses together. *Declining card profitability is thus a threat to industry profitability.*

Many risks bankers failed to foresee

Card fans in bank management believed that although losses were multiples above other bank loans, at lending rates of 18%-20%, a loan loss of 3% or so was merely a manageable business expense. The exposure they failed to see was that: (1) the loss rate could escalate beyond expectations; (2) lending rates and annual fees could erode due to competition; (3) operating expenses relating to marketing and collections could rise sharply; and (4) growth rates in outstandings above 20% per year could not go on forever. The result has been a severe erosion of profitability--in some cases by 50% in 1996 versus the 1993 peaks. The key point is that there remains some further risk of escalation of loan losses which could take ROAs to 150 basis points and ROEs to 18%--or even lower in 1996. We believe the pendulum is swinging to extremes not expected within the industry. Particularly, ROEs could drop as regulators ask for more equity in the card business.

The Unique Risks In Cards

It is our thesis that bank card losses in 1996-1997 could well exceed most worst-case expectations. Examining the risk characteristics of card lending should help us understand why loan losses could reach unprecedented highs for the industry over the next few years.

- **Unsecured.** There is no collateral to protect the lender. Only 10% is recovered.
- **Impersonal.** With national card solicitation, cards arrive in mailboxes from banks whose names are often hard to find on the literature. There is no customer relationship or loyalty with the bank (which could discourage default). There is no personal banker. Often no other products of that bank are used.

Card is "junior debt"

- **Low Priority In Mind Of Debtor.** If a borrower is in financial difficulty most of his debts have higher priority than his card payment. Mortgage, car, home equity loans, insurance, etc., all come first. Thus, we could characterize the card as de facto *"junior debt"* with no collateral. Many borrowers even view their card lines of credit as present or potential "unemployment insurance funds."
- **Lack of Effective Control.** This is a large problem. Lending is done without full, *verified,* information on the borrower's total income, debts, employment, etc. Preapproval is very risky. Borrowers can obtain additional huge lines of credit after a bank makes what it believes is a prudent loan. Say Bank A lends $5,000 to a person earning $35,000 annually--a prudent loan. But six months later he could have six cards with $25,000 in total credit. The original loan now looks weak. Other reasons why banks are not in full control of card lending are: (1) cards lack a maturity date; (2) it is hard to call in such a loan; and, (3) bankruptcy is easy and cannot be anticipated or prevented.

- **Documentation Is Not Thorough.** We have learned that many card lenders do not verify or even ask for employment status. This also applies to annual income, which one banker told us was "too expensive" to verify. Thus, lenders have no debt/income ratios--the essence of how to know if any borrower has too much credit. And, credit bureaus are unable to pick up all debts of individuals, e.g., from credit unions, 401Ks, mortgage companies, smaller retailers, loans from individuals, etc. In sum, the card business is low documentation, or no documentation, lending.
- **Too Much Reliance on Technology-Driven Scoring Systems.** Good "old-fashioned" credit underwriting with verification of key data seems less common today than 10 years ago.
- **Revolving Nature.** Banks discourage large pay-downs of principal, giving borrowers a signal that they should not do so. Minimum monthly payments of only 2% of principal are common. In short, amortizing loans are far better for bank loan quality because if the borrower needs more credit, he has to reapply and be underwritten again. It's been calculated that at 2% per month it could take 34 years to pay off a $2,500 loan with total payments of over 300% of original principal.
- **Too Many Lenders.** With roughly 7,000 VISA and MasterCard issuers, borrowers have easy access to excessive card credit. High rates of return in cards have attracted too many players, flooding the market and making default more likely. Consider how many other ways there are for consumers to get credit.

Other Consumer Credit

On a relative basis, the following loan categories are far less risky for lenders:

- First mortgages
- Second mortgages (amortizing) or home equity loans (revolving)
- Auto loans--direct and indirect
- Boat loans
- Student loans
- Amortizing installment loans (unsecured)
- Revolving credit lines attached to checking accounts
- Other types of collateralized loans using real estate, marketable securities, etc.

BANKERS' VIEWS ON THE CARD BUSINESS: THEY'VE BEEN CAUGHT OFF GUARD

In today's environment, bankers face the dilemma of either expanding this declining profitability business or curtailing it--also with adverse earnings implications. Bankers are concerned with long-term market-share ramifications versus the nearer-term challenges that may come from slower growth. But recent high growth could create new waves of losses in 1997-1998. Cards are likely to grow in importance in our payments and credit systems. Industry executives now seem to be divided into three camps:

- **Business As Usual.** No problem facing their own card strategy and outlook. This could be 10%-20% of the industry.
- **It's Time For Caution.** While no crisis is on the horizon, it is time for slowing card growth, underwriting loans more conservatively and reducing objectives regarding ROA and ROE, in the card business. This school of thought says the best days of card profitability are gone and more "defensive" and less "offensive" measures are called for. This is the developing industry consensus.
- **A Loan Quality Crisis Looms.** Still a minority, but a credible one in our view, is the group that is aggressively planning to reduce growth, raise lending standards and "cleanse" the existing portfolio to reduce the odds of heavy loan losses. This thinking assumes in part that a recession is not too far away and in part simply is concerned with the sharp rise of loan losses despite very little economic change and lending rate competition. It is obvious to us that the market is saturated and has too much capacity now. Too much growth invites trouble. Interestingly, few large or even medium-sized players in the card business have exited completely by selling their portfolios. This is the best sign that fear is not yet rampant or growing in lenders' minds despite the clouds we see on the horizon.

What Should Bankers Do, If Our Thesis Is Correct?

Here are our recommendations to the larger participants in the credit card business--those doing business nationally or outside their natural customer base or geographic territories. There could be from 50 to 100 of these.

We recommend tighter lending standards

- **Recognize the New Realities.** Card lenders must accept that the card business has lost its luster and high profitability. Greater caution is called for. We believe given the nature and levels of card losses, an adverse structural change is taking place, and the past can no longer be used as a guide to future losses in the card business.
- **Make Loan Loss Control the Number One Objective of Credit Card Management.** In our view, these types of actions are the most appropriate in protecting the earnings and overall financial health of credit card issuers. As Exhibit 1 shows, potential earnings reductions are likely to be material if losses should escalate from current levels. And this strategy will save money on the marketing of new cards.
- **Reduce Loan Growth Objectives.** True, this would reduce earnings, but by a lesser amount than if volume grew at historic 20%-plus annual rates and resulted in very high net loan losses in a year or two. We believe there is no choice but to cut loan growth.
- **Consider Outright Sale of Card Loan Portfolios.** We have already seen examples of this practice, which hastens disposal of lower-grade loans. Norwest now has some loans on the market for sale, and BK will likely be selling its AFL-CIO card in 1Q97.

- **Stop Preapproved Mailings.** These seem to be fraught with risk due to the reduced amount of screening and because the market is already saturated with cards. We have found that credit bureau data is incomplete, and in-house credit underwriting is far from rigorous and somewhat outdated.
- **Reprice Delinquent Borrowers.** Some lenders have begun to raise lending rates on weaker credits by 400-500 basis points in order to be compensated for higher perceived risk. We think this could be an imprudent move, since it could drive good customers to other lenders with lower rates or it could force a borrower into default or bankruptcy due to a rapid escalation of his monthly interest payment. For example, a 400 basis point increase from a 14% APR, to 18%, is a 29% increase in interest expense per month. Generally, we believe it is best to *reduce* rates for overextended borrowers.
- **Reduce Lines of Credit.** Most card holders actually borrow well below 50% of their lines of credit (see Exhibit 4). Cutting back on these, selectively, could reduce the amount of loss, should the person be headed for bankruptcy or default. Cutting unused lines could remove a lot of the slack in credit availability.
- **Review the Portfolio More Often.** Getting credit bureau reports more frequently would be very helpful, for example, in identifying multiple card holders who formerly had fewer cards and who have undergone other changes.

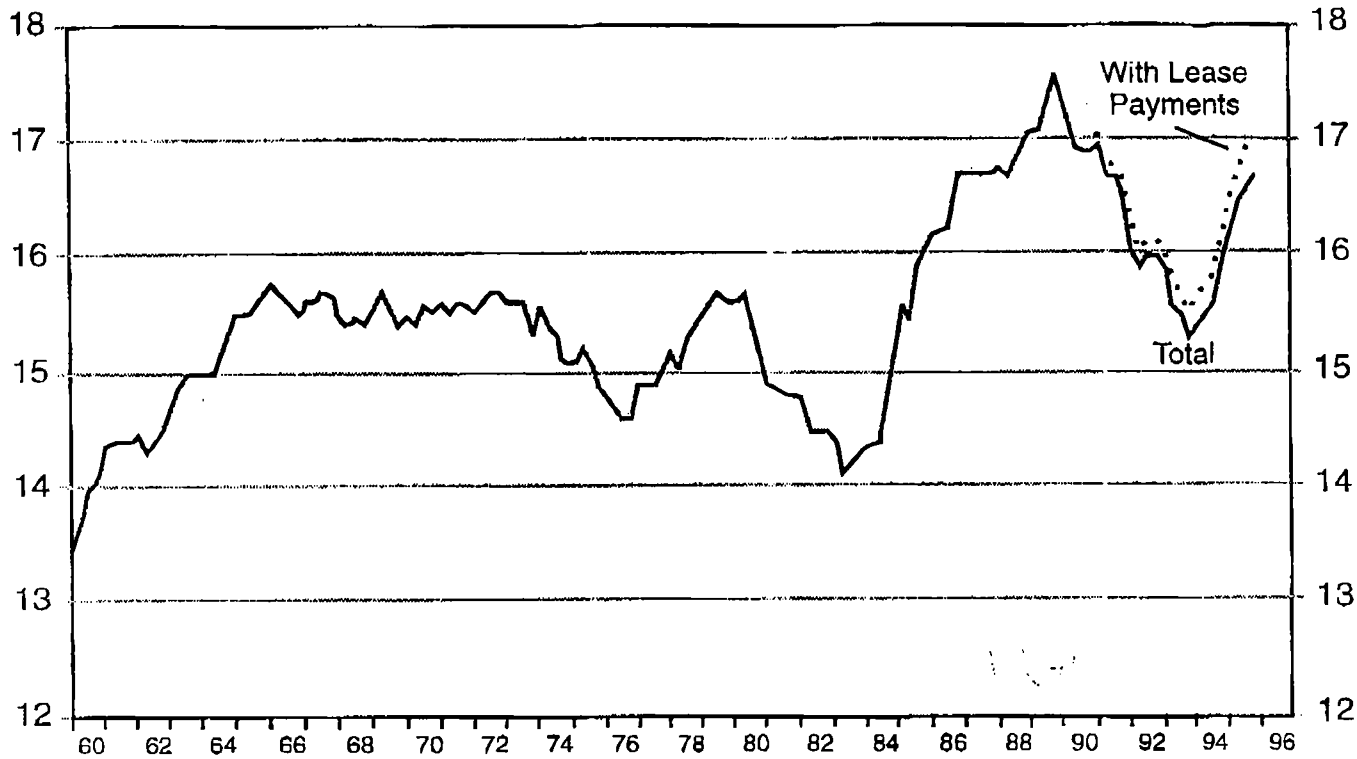
More Underwriting and Less Marketing. There are many manifestations of more cautious card loan underwriting. In our view, cards have been too heavily *marketed* in recent years and not sufficiently underwritten. We think the need now clearly exists for the pendulum to swing sharply toward underwriting, "preventive maintenance" which we believe will pay off handsomely. If this were done, the lenders' balance sheets and earnings would be stronger, and the borrowers would have discipline forced upon them. There would be fewer bankruptcies, and the national economy would be in better balance with respect to consumer spending not being artificially stimulated by loose bank credit--or consumer spending reduced by banks' heavy-handed tightening of card credit.

Some More Prudent Than Others

Good times don't test bad lending

We are not suggesting that all credit card lending is done with limited care and prudence. Many lenders spend heavily on selecting the better credits to solicit--and do it well. Some banks get updated credit bureau information on borrowers annually, some semiannually, some quarterly, and a few truly prudent banks every month. These measures can limit losses somewhat, but not enough to allow any major participants to come through the current cycle unscathed. We believe credit cards are simply high risk and we are in the process now of realizing their implications--and which lenders execute well and not as well. We believe that poor lending practices cannot be tested or revealed in good times. We believe that lenders will soon realize that the good times are gone.

EXHIBIT 10: DEBT SERVICE PAYMENTS AS A PERCENTAGE OF DISPOSABLE PERSONAL INCOME *



* Debt service includes consumer installment, first mortgage payments. All plots are quarterly (last plot 4Q95); estimated lease payments start at 1Q91.

Source: Gerard Klauer Mattison & Co., LLC estimates and The Federal Reserve Board.

EXHIBIT 11: LARGEST GENERAL PURPOSE CARD PORTFOLIOS IN THE US

By Receivables at 3/31/96*

Rank	Issuer	Outstandings (billion)	Change vs. 3/31/95
1.	Citibank	$42.6	+10%
2.	Discover	27.3	+20
3.	MBNA America	26.3	+37
4.	Chase Manhattan	23.1	+17
5.	First USA	18.3	+53
6.	First Chicago/NBD	17.0	+42
7.	AT&T Universal	13.4	+13
8.	Household Bank	12.8	+21
9.	Advanta	11.7	+69
10.	American Express	10.2	+23
11.	Capital One	10.1	+27
12.	Bank One	9.6	+35
13.	Bank of America	9.0	+15
14.	Bank of New York	8.8	+18
15.	NationsBank	7.7	+36
16.	First Union	5.7	+40
17.	Wells Fargo	5.0	+36
18.	Providian	4.9	+44
19.	Chevy Chase FSB	4.8	+25
20.	Wachovia Bank	4.6	+13
21.	Associates National	4.5	+26
22.	First Bank System	4.0	+17
23.	USAA Federal Savings	3.4	+14
24.	Mellon Bank	2.9	+21
25.	First National of Omaha	2.6	+11

*Managed basis.
Source: The Nilson Report.

The following companies were cited in this report:

Company	Ticker	Price (close 6/10/96)	Rating
Advanta	ADVNA	52.13	Not Rated
Banc One	ONE	36.25	HOLD
Bank of New York	BK	53.38	BUY
BankAmerica	BAC	76.00	BUY
Bankers Trust	BT	75.50	HOLD
Boatmen's	BOAT	40.25	HOLD
Capital One	COF	30.13	Not Rated
Chase Manhattan	CMB	72.13	BUY
Citicorp	CCI	83.50	BUY
First Chicago/NBD	FCN	42.50	HOLD
First USA	FUS	57.75	Not Rated
MBNA	KRB	31.00	Not Rated
JP Morgan	JPM	85.63	BUY
NationsBank	NB	82.13	BUY
Norwest	NOB	34.75	BUY
PNC Bank	PNC	30.50	HOLD
Wachovia	WB	43.63	HOLD
Wells Fargo	WFC	244.63	BUY

Other Publicly-Owned Card Issuers Among the Top 25 (not rated):

Company	Ticker	Price (close 6/10/96)
American Express	AXP	45.63
Chevy Chase FSB	CCSBP	30.25
Dean Witter Discover	DWD	60.87
First Bank System	FBS	59.00
First Union	FTU	60.63
Household International	HI	70.25
Mellon Bank	MEL	58.00

†Gerard Klauer Mattison & Co., LLC is a market maker in the security of this company and may have a long or short position.

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CREIGHTON
UNIVERSITY

School of Law

June 30, 1999

Ms. Nicole Rabner
Special Assistant to the President
on Domestic Policy
The White House
2nd Floor, West Wing
1600 Pennsylvania Avenue
Washington, D.C. 20500

RE: S. 625 Bankruptcy Reform

Dear Ms. Rabner:

We applaud Hillary Clinton's work on bankruptcy reform and hope the enclosed materials will be of some help.

S. 625's advocates claim that many consumers who could repay their debts instead abuse the bankruptcy system by filing Chapter 7. S. 625's draconian provisions, some say, are necessary to curb this widespread abuse.

No one disagrees that those who can pay should. However, the truth is that "can-pay debtors" are few and far between, as our original research shows. With funding from the American Bankruptcy Institute, we applied means-testing to a random sample of more than 1000 Chapter 7 cases from seven districts across the nation. We found that only 3.6% of the sample debtors would have been barred from Chapter 7 under the legislative formula. **Ninety-six percent of the debtors were clearly unable to repay even 20% of their unsecured debt under the creditors' own formula**. This outcome casts doubt on the wisdom of imposing complex and costly new burdens on all Chapter 7 debtors, their counsel and the courts, in order to catch so few apparent abusers.

We enclose a copy of our recent article on means-testing, as well as a short piece which recently appeared in Creighton's Windows magazine. One feature of the law review article which may interest you is Appendix A at pages 62-72, where we profile each "can-pay" case in the sample. These profiles put a human face on the numbers, and show that some of these alleged abusers are unlikely to succeed in Chapter 13.

We would be happy to answer any questions you or Mrs. Clinton may have. Our phone numbers are (402) 280-3154 (Culhane) and (402) 280-5515 (White).

Yours very truly,

Marianne B. Culhane

Marianne B. Culhane
Professor of Law

Michaela M. White

Michaela M. White
Professor of Law

Enclosures

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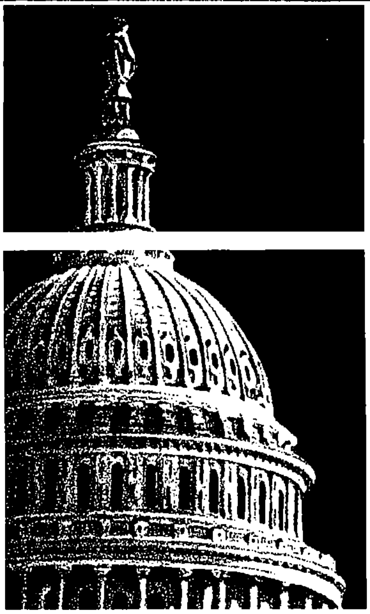


AMERICAN BANKRUPTCY INSTITUTE LAW REVIEW

TAKING THE NEW CONSUMER BANKRUPTCY MODEL FOR A TEST DRIVE: MEANS-TESTING REAL CHAPTER 7 DEBTORS

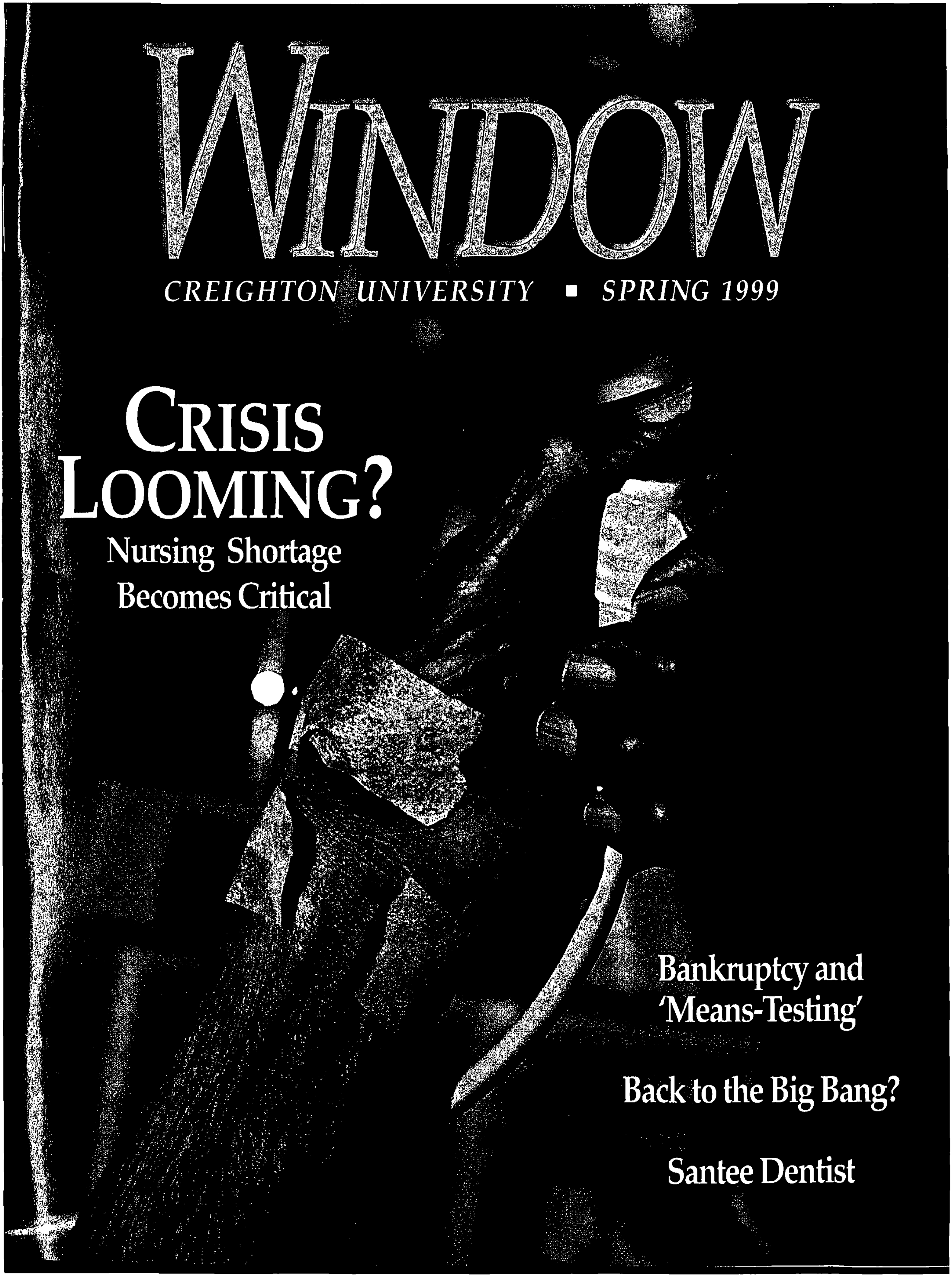
Marianne B. Culhane
Michaela M. White

Published in conjunction with St. John's University School of Law

VOLUME 7 NUMBER 1 SPRING 1999

WINDOW

CREIGHTON UNIVERSITY ■ SPRING 1999



CRISIS LOOMING?

Nursing Shortage Becomes Critical

Bankruptcy and 'Means-Testing'

Back to the Big Bang?

Santee Dentist

BASIC PRINCIPLES OF BALANCED BANKRUPTCY REFORM

This year, approximately 1.4 million families will file for consumer bankruptcy, a statistic that may be puzzling at first glance given the thriving economy. But, the reality is that not all Americans are sharing equally in these economic good times. While many upper-income families have benefited, the incomes of middle- and lower-income families have stagnated and even declined in real value. Too many working-class Americans live from paycheck to paycheck (or close to it), vulnerable to any unforeseen calamity that easily can lead to insolvency. Academic research reveals that, as a group, the debtors who file for bankruptcy in the mid-1990s are worse off than their counterparts who filed in the early 1980s. Their incomes are lower, and their debt loads are higher.

Consider, for example, the 41.7 million Americans with no health insurance and the 31 million Americans that have inadequate coverage. Just one accident or significant medical emergency can mark the difference between solvency and insolvency. For the millions of Americans facing stagnating wages, the loss of a job, or re-employment at lower wages, simply making ends meet can be a daunting challenge. And, for families facing divorce or separation, the cost of maintaining two households can force economic failure.

As these working families carry more short-term, high interest debt, they are more at risk of financial failure. Because they have virtually no savings and already have incurred as much debt as they can repay, they have no cushion to help them through a crisis. For a family with debt, any set-back -- the loss of a job, an uninsured medical emergency, or a divorce -- can put them over the edge of financial stability. The bankruptcy system is designed to work for these honest, hard-working Americans who face extraordinary financial difficulty.

Why then, is Congress rushing through H.R. 3150 and S. 1301, sweeping bankruptcy reform measures that would deny the protection of the bankruptcy system to these working class people who so desperately need it?

In an open letter to Congress, 110 bankruptcy judges raised this very issue when they wrote, "*we believe that these bills are too important and their proposed changes too sweeping to be acted upon without thorough consideration. We are alarmed by how little study appears to have been given to the pending bills ...* " Fifty-seven leading law professors from across the country wrote a similar letter, asking Congress to conduct a more careful study of the far-reaching effects of the pending legislation.

Standards for Balanced Bankruptcy Reform

A fundamental tenet for any major reform initiative is that Congress should not create more problems than it solves. In order to determine whether the pending bankruptcy reform proposals (S. 1301 and H.R. 3150) meet this test, the bills should be considered in the context of the following basic standards:

The reform should not effectively deny access to bankruptcy relief for honest debtors. The proposed measures, which would introduce into the bankruptcy system for the first time the concept of "means testing," would make it much more difficult for financially distressed lower- and middle-income Americans to obtain bankruptcy relief. For example, S. 1301 would establish a bright line test under which a court would be required to consider, among other factors, whether a debtor could afford to repay at least 20 percent of his or her debt. If so, the debtor would have to make the payments. The means testing under H.R. 3150 is even more onerous. If the means testing requirements are adopted as proposed, they will give the credit industry enormous leverage over debt-laden consumers, threatening them with challenges to the test as a way of trying to force payment.

Furthermore, the means test will work against honest, lower income people while potentially working to the advantage of well-advised, wealthier debtors. These people may be in a position to incur more debt, adjust expenses or walk away from their jobs in order to circumvent the means test.

The reform should not encourage abusive litigation tactics that will add to the cost of the bankruptcy system. A top priority of this Congress is reducing the litigious nature of American society. Contrary to that clear policy objective, S. 1301 and H.R. 3150 would significantly increase the litigation associated with bankruptcy by, for the first time ever, permitting creditors to file motions challenging debtors' ability to pay, and to litigate even frivolous claims of fraud in Chapter 13 cases. Although creditors can easily absorb the cost of this increased litigation, financially-strapped debtors cannot. Creditors may use their considerable leverage to force debtors into repayment agreements, no matter how slim the chances that the debt will be repaid. Debtors will not be able to respond to the sophisticated legal maneuvers that can be made on behalf of mammoth financial institutions. The result? Many debtors will have to forgo the bankruptcy system and risk losing their homes, automobiles and other possessions as they are forced to pay off other debts. At the same time, the increased litigation encouraged by S. 1301 and H.R. 3150 will drive up the costs of the bankruptcy system to the American taxpayer.

The reform should not expand or create new and inefficient government bureaucracies. The significant increase in consumer bankruptcy litigation that would result if the pending measures are adopted would impose tremendous new burdens on the judicial system. The elaborate investigation into every aspect of a debtor's income and expenses contemplated by the legislation would cost enormous sums of money to administer. The number of judges, trustees, court clerks and attorneys would increase accordingly. Dramatically increasing the bottomline will be the costs associated with the audit provisions of the bill. Section 307 of S. 1301 calls for no fewer than one in 50 cases in each judicial district to be randomly selected for audit by independent certified public accountants or independent licensed public accountants. (Even the IRS audits only one in 1,000 tax returns.)

Congress should carefully consider whether it is prepared to have the taxpayers of this country essentially foot the bill for having the U.S. government serve as the collection agency for the banking industry, particularly since this industry is fully capable of changing its own lending practices to reduce losses caused by high risk lending.

The reforms should not reward irresponsible lending practices. The fruits of irresponsible lending practices are being harvested in the form of increased bankruptcy filings over the last several years. Under the pending measures, a significant portion of credit card debt would be immune from bankruptcy. As has been pointed out by economists, such a major shift in bankruptcy laws would remove all normal economic disincentives for engaging in high-risk lending.

As it now stands, creditors are fully capable of reducing their bankruptcy losses without government intervention. The problem is that high-risk lending is high-profit lending. Banks borrow money from the federal government at rates ranging from 3.5 to 6 percent and then lend it out to consumers at rates of 15 and 20 percent. This means is that creditors are encouraged to seek out people who are most likely to carry big balances -- the bigger the balance, the more interest they pay. While that kind of lending may pay off in the short term with higher profits, credit issuers know that it cannot be sustained.

The reform should not eviscerate the privacy rights of debtors. The American public is rightfully concerned about the loss of privacy and the threat of identify theft due to technological advances and other business practices. The bankruptcy reform proposals under consideration by Congress will create new opportunities for the invasion of privacy and for identity theft by mandating that tax information (including the return and all schedules) be made publicly available during the course of a bankruptcy proceeding.

The reform should not further penalize families in crisis. Academic research demonstrates that those who turn to the bankruptcy system are the most vulnerable among American families. They have been the hardest hit by economic reversals and use bankruptcy as a way to avoid slipping even further down the economic ladder. The bankruptcy system should not further penalize them with the threat of losing their homes, of being evicted from their rental housing, or of losing the land of their family farm. S. 1301 and H.R. 3150 may very well create any one of these untenable scenarios. By putting credit card debt on equal footing with child support, alimony, mortgage arrears, and back taxes, America's most vulnerable families will be at further risk.

* * * * *

By any objective measure, S. 1301, the "Consumer Bankruptcy Reform Act of 1997" and H.R. 3150, the "Bankruptcy Reform Act of 1998," fail to meet the standards for balanced reform. These proposals should be rejected and Congress should undertake careful and deliberate study of their effect on the honest American families who turn to the bankruptcy system for relief. Solutions should be designed to target well-documented abuses, rather than unfairly burdening honest consumer debtors.

FOR MORE INFORMATION, CONTACT:

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April 1998