

CSSB

87

# HOUSE COMMITTEE REPORT

(11)

Date referred: 5/4/87

FURTHER REFERRALS:

DATE: 5-10-87

The Finance Committee has considered CSSB 87(L&C)

"An Act relating to the credit card interest rate that may be charged by certain financial institutions."

**RECOMMENDS:**

- replace with \_\_\_\_\_  the same title
- attached amendment(s)  a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the \_\_\_\_\_ Committee

**ADOPTS:**  \_\_\_\_\_ letter of intent

**ATTACHES NEW FISCAL NOTE(S):**

- fiscal impact  same as previous fiscal note published \_\_\_\_\_
- zero fiscal note  same as previous zero fiscal note published 2-13-87
- zero with analysis

**SIGNING DO PASS:**

*W. Adams*  
 \_\_\_\_\_  
*Frank Hancock*  
 \_\_\_\_\_  
*Ch. Tomelle*  
 \_\_\_\_\_  
*John Riege*  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

**SIGNING OTHER RECOMMENDATIONS:**

*Richard J. ...*  
 \_\_\_\_\_  
*Pete ...* - DO NOT PASS  
 \_\_\_\_\_  
*Mark Bayard* NO YEE.  
 \_\_\_\_\_  
*Kay Wallis* DO NOT PASS  
 \_\_\_\_\_  
*Fay Brown* DO NOT PASS  
 \_\_\_\_\_  
*Mike Davis* DO NOT PASS  
 \_\_\_\_\_

*Robert Adams*  
 \_\_\_\_\_  
 Chairman's signature

No. 44

STATE OF ALASKA 1987 LEGISLATIVE SESSION

FISCAL NOTE

SENATE

BILL VERSION: CSSB 87(L&C)

PUBLISH DATE: 2/13/87

REQUEST: \_\_\_\_\_

Revision Date: \_\_\_\_\_

Title: Credit Card Interest Rates

Agency Affected: Comm. & Econ. Dev.

BRU: Banking

Sponsor: Labor & Commerce

Requestor: Labor & Commerce

Components: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
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REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS :

\_\_\_\_\_

Prepared by: Willis Kirkpatrick, Director  
Division: Banking, Securities and Corporations

Phone: 465-2521  
Date: February 11, 1987

Approved by Commissioner: *[Signature]*  
Agency: Commerce and Economic Development

Date: February 11, 1987

- Distribution (by preparer):
- Legislative Finance
  - Legislative Sponsor
  - Requestor
  - Office of Management and Budget
  - Impacted Agency(ies)
  - Senate Secretary

Original sponsor: Labor & Commerce  
Committee

BY THE SENATE AND  
COMMERCE COMMITTEE

1 IN THE SENATE

2

CS FOR SENATE BILL NO. 87 (L&C)

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6 For an Act entitled: "An Act relating to the credit card interest rate  
7 that may be charged by certain financial institu-  
8 tions."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 \* Section 1. AS 06.05.209(b) is amended to read:

11 (b) A bank may issue a credit card or other similar credit-  
12 granting device to a customer for obtaining money, goods, services or  
13 anything else of value and the bank, when credit is extended under  
14 this section, may impose a service charge at a monthly rate that  
15 results in an annual rate not in excess of 17 percent on the out-  
16 standing balance [THE LIMITS FOR SERVICE CHARGES PROVIDED IN AS 45.-  
17 10.120(c)]. However, in addition, when cash is advanced under this  
18 section, the bank may impose a setup charge that [WHICH] does not  
19 exceed three percent of the funds advanced, or \$12, whichever is less,  
20 except that on loans of under \$100 a minimum not exceeding \$3 may be  
21 charged.

# ALASKA WOMEN'S LOBBY

POST OFFICE BOX 10-1571, ANCHORAGE, ALASKA 99510

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February 11, 1987

Honorable Tim Kelly  
Senate Labor and Commerce Committee  
P.O. Box V  
Juneau, Alaska 99811

Dear Chairman Kelly and members of the committee:

The Alaska Women's Lobby has consistently been opposed to efforts aimed at de-regulation or raising the legal limit on service charges and interest rates.

We cannot agree with the Alaska Banker's Association's characterization of SB 87 as a consumer bill rather than a banking bill.

The banks propose that if allowed to raise the limit on service charges on credit cards to a single rate of 18% per year there would be a result in consumer savings because they would not necessarily charge consumers the maximum allowed by law.

Over the years we have seen interest rates drop considerably as has the Federal discount rate and holders of Alaskan credit cards with balances of \$1,000 or less have yet to experience a savings.

The supporters of SB87 claim that they must push the rate charged on lower balances to the maximum because the lowering of the discount rate has not allowed them to charge high enough interest on balances over \$1,000. It would seem that the lowering of the discount rate might have resulted in increased profits for the banks if it was not met by a decrease in interest charged to the majority of consumers.

In previous years we have been told that if the statutes were not changed to allow for an increased maximum rate it would force Alaska's banks to give up their credit card operations and in fact Alaska National Bank of the North did so and is now offering Alaskan customers a card from Seattle at a 15% single rate. This resulted in an actual benefit to Alaskan consumers.

The present two-tier system does not penalize the lower balance user. The statutes do not mandate the banks to charge the maximum interest rate.

One of the two remaining banks offering in-state credit cards says if allowed to charge 18% to everyone they promise they will reduce the rate, "in today's market", the other bank, we are told will consider the question. These do not seem guarantees the consumer can count on.

If the two-tier system is outdated and is indeed responsible for causing the majority of holders of Alaska issued cards to pay 18% interest rates then we would not oppose providing a single maximum rate. That rate though, should guarantee a savings to Alaskan credit card holders, perhaps 16%.

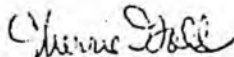
Or you might consider a single floating rate of a certain number of percentage points above the discount rate set by the Federal Reserve Bank. This way the rate could adjust to current market conditions. Another possibility would be a choice of the higher of the two.

Consumers are becoming more sophisticated and their choices are broad. Some Alaskan banks are charging a 15% single rate on out of state cards. Credit Unions offer even lower rates. There is a push in Congress for a national ceiling on interest rates.

We do not wish to prevent Alaskan banks from competing with out of state issuers in attracting credit card customers, but as you consider amending our current consumer-protective statutes we would urge you to assure that changes will result in an actual benefit to the average consumer.

Thank you for your consideration.

Sincerely,



Sherrie Goll  
for the Alaska Women's Lobby

the maternity census begin to  
uch different situation than two  
en Humana claimed 65 percent  
Anchorage, she says.

Anchorage Daily News/Fran Dumer

See Page J-2, HOSPITALS A birthing room at Providence Hospital is equipped with many of the amenities of home.

# Alaska laws keep card rates high

You might not have noticed, but the interest you pay on your VISA or MasterCard depends very much on whether it was issued by an "Outside" bank like Citibank or Bank of America, or an Alaska bank. It can make a real difference, because the interest charged by local banks can be considerably less. But not as cheap as it could be. Therein lies an interesting story.

This is hard to believe, but sadly true: Alaska's law restricting interest rates on credit cards puts local banks at a competitive disadvantage with out-of-state financial institutions, results in local consumers paying higher rates, raises the possibility of local jobs being eroded and surprisingly, results in a minority of relatively affluent Alaskans being, in effect, subsidized by the rest of us.

You'd think legislators would rush to change this. In fact, they tried to. A bill did pass both the House and Senate, but it died in the confusion during final hours of the legislative session.

The law governing these interest rates is relatively obscure, a relic of the days of high interest rates, high inflation and the notion that economic problems can be solved by price controls and government regulation. But because of it, out-of-state financial institutions have been able to market their own credit cards aggressively here, capturing about half the Alaska charge card market. Because Alaska's limitations on interest don't apply to them, they can charge higher rates as well.

Alaska is one of five states that still have laws restricting interest rates on



tim bradner

locally issued credit cards that are lower than they would be on the open market. However, the problem is not so much the limit but the way the limit is structured.

We have a "two-tier" limit in Alaska, a top rate of 18 percent on the first \$1,000 owed, and a lower interest rate, applying to balances over \$1,000, that "floats" at five points over the federal discount rate. The discount rate has been falling, so this lower rate is now about 11.5 percent.

Like any price control, these limits create shortages and market distortions. The shortage is in the ability of the local banks to offer their lower-cost credit card services to large numbers of Alaskans, many of whom then turn to cards issued by out-of-state financial institutions to which the Alaska limits do not apply. Rates charged on these cards approach 20 percent. For example, Citibank and Bank of America charge 19.8 percent for their VISA and MasterCard accounts, as does Sears with its new Discover card.

But the most bizarre distortion is this:

The "two-tier" structure of Alaska's law creates a situation in which most of Alaska-issued card owners who carry relatively low balances wind up paying the maximum 18 percent, while a minority of the more affluent, who qualify for the premium bank cards with larger credit lines, can carry large balances and pay 11.5 percent on some of it. In effect, they are using the cards as a source of cheap consumer credit and are being subsidized by the rest of us who pay 18 percent.

This is the crux of the matter. Alaska bank earnings are marginal when servicing charge card accounts at 11.5 percent. To make up for lower earnings on this money, they must push the rate to the legal 18 percent maximum on the other money lent. Even with that, bank card services are no big money-maker for local banks.

Credit card operations are more complex and costly than conventional bank lending because of added costs in processing, handling and mailing. What this means is that to stay in the business, local banks must keep costs to a minimum, particularly the inevitable bad debt losses. They can do this by being very restrictive to whom they issue cards.

This has made Alaska a happy hunting ground for out-of-state financial institutions that are regulated under more liberal laws of their home states. With modern communications and data processing technology, they locate card

See Page J-5, CREDIT

ANCHORAGE DAILY NEWS - SUNDAY, JULY 6, 1986

## CREDIT: Laws keep rates high

Continued from Page J-1

operations in states with liberal laws and can aggressively promote their cards nationwide because they charge higher rates and have a huge volume to make up losses. Local banks, in contrast, have less volume, less margin and higher costs, partly because they maintain their operations and people here.

The legislation that died in Juneau would have wiped out this lower "tier" of interest limitation to leave just one limit on the total of the amount owed. In fact, in final versions of the bill, the top "cap" would have been reduced from 18 to 17 percent.

But the actual rate would be determined by competitive market forces here and would "float" down to around 16.5 percent, Alaska bank officials say. Because there no longer would be a need to subsidize the lower limit, rates for most people would go down. But the overall return to the banks would increase. A greater margin would permit more liberal card-issuing, more volume, an ability to capture back more market share from the Outsiders, and lower interest rates on charge cards for most Alaskans.

Cynics doubt rates would actually fall. Local bankers point to other states with relatively high legal limits, or even no limits, where actual rates, established by market competition, are lower. They point to Washington, where the legal ceiling is 18 percent but Seafirst and Rainier banks charge 15 percent on their cards.

Critics respond: the Alaska banking community is small and dominated by a few big banks. There might not be enough competition for market forces to bring down rates.

Most legislators finally grasped the subtle complexities of this issue, though not in time to see a change in the law this year. It's tempting in politics to rely on the notion that government can "fix" a problem with a regulation or a control. It's more difficult to see the long-range effects or to really trust that free-market forces and deregulation in the financial community can really benefit consumers.

If legislators do allow interest rate deregulation, it will be interesting indeed to see how free-market forces will actually perform.

□ Tim Bradner writes for an Alaska economic reporting service.

## Georgia Lawmakers Vote to Kill Rate Ceiling on Credit Cards

Special to the American Banker

ATLANTA — Georgia's General Assembly has voted to give credit card issuers within the state complete freedom to set their own interest rates and fees.

The bill, approved Thursday, abolishes the state's 18% ceiling on annual interest rate charges and the \$12 limit on annual fees. It also permits the establishment of special credit card banks in Georgia, a feature that proponents say will create hundreds of new jobs.

The House passed the measure 138 to 34 and immediately sent it to the Senate, where it was approved by a 42-to-1 vote. The bill requires the governor's signature to become law.

Rep. James M. Beck, D-Valdosta, sponsor of the bill in the House, said deregulation of rates and fees would allow banks to offer a wider variety of credit cards here. He also predicted that as many as a dozen financial institutions would open credit card banks here within a year.

"I can't overemphasize the employment aspect of the bill," he said. "That's what it's all about. But we can't have one part [new banks] without the other [credit card deregulation]."

Under the bill, a credit card bank would have to employ at least 50 people or contract with a Georgia credit card processing company that employs

at least 250 people.

Rep. Jack Connell, D-Augusta, sought an amendment in the House that would have lowered the required number of employees at a Georgia processor. He said he wanted to open the card processing business to more small companies. The amendment lost on a voice vote.

Other representatives claimed banks would respond to the bill by raising their interest rates and fees.

"The \$12 fee will be \$45 in no time flat," said Rep. William S. Jackson, D-Martinez.

Rep. Rudolph Johnson, D-Lake City, who offered an amendment that would have lowered the ceiling on interest rates from 18% to 14% said bankers have not let credit card rates follow other market rates downward.

Mr. Beck and other proponents warned, however, that if the bill failed, Georgia banks might choose to move their credit card operations to a deregulated state.

The deregulation of credit cards applies only to cards issued by financial institutions, including banks, savings institutions, and credit unions.

It does not affect cards issued by department stores and other retailers, who are limited in Georgia to a 21% annual interest rate. They are not permitted to charge an annual fee. ■

## Credit cards competitive?

THE ASSOCIATED PRESS

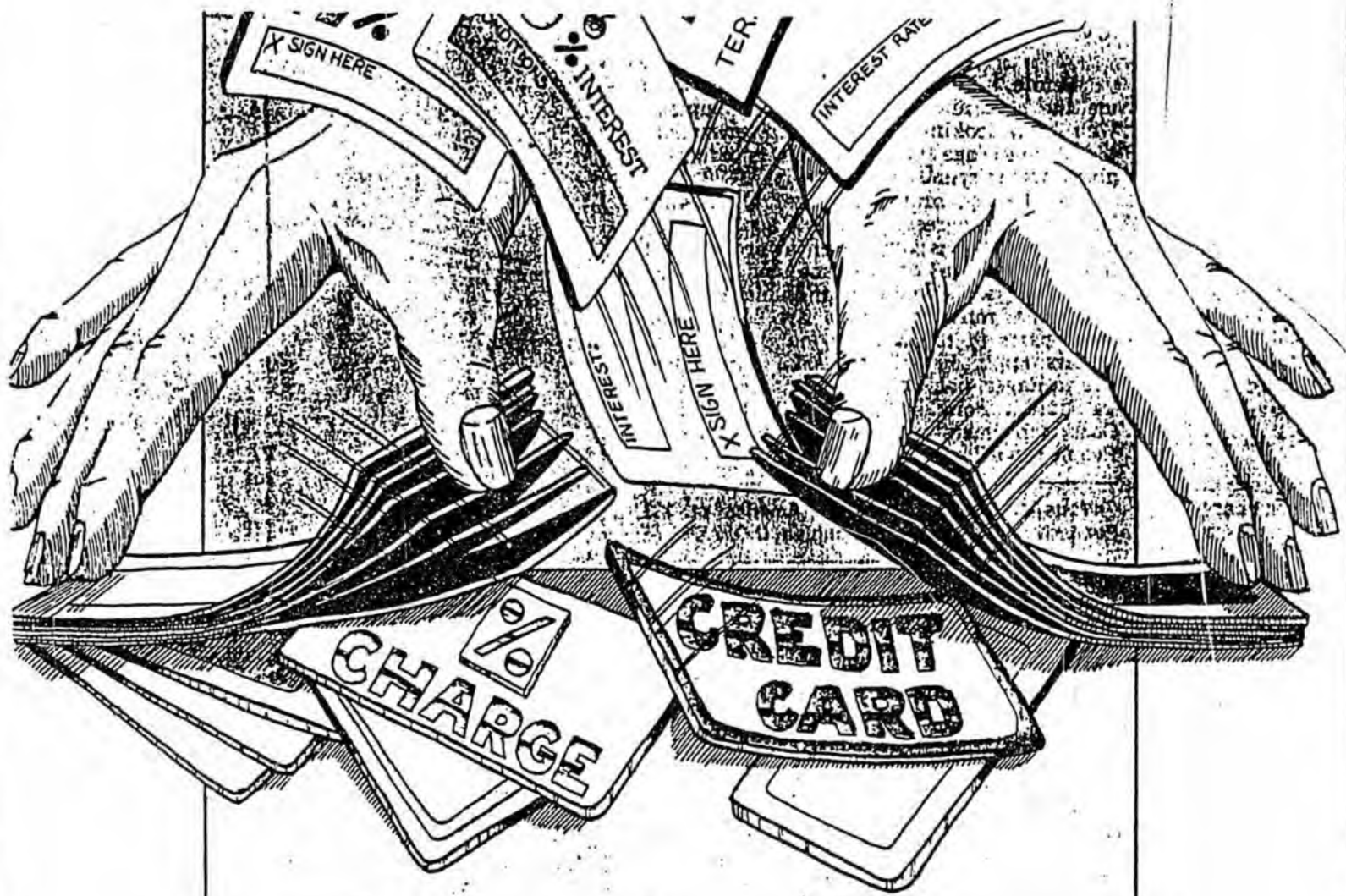
WASHINGTON — The chairman of a Senate Banking subcommittee is warning banks that issue Visa and MasterCard credit cards to begin competing on interest rates or risk new legal curbs on the rates they can charge.

Sen. Christopher Dodd, D-Conn., opening a hearing by his consumer affairs subcommittee, said Tuesday he disliked the idea of a national cap on interest rates, calling such a ceiling "a simple and wrong solution to a complicated problem."

Anchorage Daily News  
Monday, February 2, 1987

**Styles/community/entertainment/tv**  
**MATTER OF INTEREST**

It pays to shop around for credit rates



## BANK CARD INTEREST RATES

A sample of some Anchorage banks

Company	First \$1,000	Over \$1,000	Annual fees	Interest free period
Alaska Continental Bank	18.00%	10.50%	\$20	25 days
Alaskan Federal Credit Union	*14.85%	same	none	none
Alaska Mutual Bank	18.50%	same	\$18	21 days
Alaska National Bank of the North	15.00%	same	\$18	21 days
Alaska Pacific Bank	18.00%	10.50%	\$20	25 days
Alaska Statebank	18.00%	10.50%	\$20	25 days
Alaska USA Federal Credit Union	*13.90%	same	\$15	25 days
Fedalaska Federal Credit Union	18.00%	10.50%	\$20	25 days
First Federal Bank of Alaska	18.00%	10.50%	\$20	25 days
First Interstate Bank of Alaska	21.00%	same	\$20	25 days
First National Bank of Anchorage	18.00%	10.50%	\$20	25 days
National Bank of Alaska	18.00%	10.50%	\$20	25 days
Rainier Bank Alaska	15.00%	same	\$20	25 days
Alaska Bank Card Center	18.00%	10.50%	\$20	25 days

\* Fluctuates

By JANE CARTWRIGHT

Daily News reporter

If you're unhappy with the interest rate you pay on your credit card, all you may have to do is drive down the street to a different bank.

Or apply for a "cheaper" card from an out-of-state bank.

Don't let the pleasure and convenience of the credit card — perhaps the most popular consumer invention ever — blind you to the reality of monthly payments, say experts. Shop around for the best interest rate, annual fee and interest-free grace period.

Banks that issue Visa or MasterCard set their own interest rates. Rates charged by Anchorage banks and credit unions vary widely — up to 6 percent.

Alaska USA Federal Credit Union currently charges its members the lowest rate at 13.9 percent. California-based First Interstate Bank of Alaska charges the highest at 21 percent.

The majority of Anchorage banks charge 18 percent on the first \$1,000 of unpaid balance and 10.5 percent on anything above that.

The annual interest rate is the amount the cardholder pays on the unpaid balance of the charge. Usually there's an interest-free or grace period before interest is tagged onto the balance. The length of the grace period varies, too. So does the annual fee charged to use the card.

So what? you may ask. If so, you're not alone.

One in four Americans carrying bank "plastic" doesn't know the rate of interest he is paying for the pleasure, according to a survey published in the Bank Credit Card Observer, a monthly industry newsletter.

The percentage of card holders who don't know may, in fact, be quite a bit higher, according to experts. Many people find it difficult to admit they don't know.

A surprising 78 percent of the 1,008 Americans surveyed said they see their cards as more of a convenience than a loan.

"The new year will challenge these beliefs," according to the New Jersey-based newsletter. "... Comparative shopping is entering a new era."

The new federal tax law calling for the phase-out of the tax deduction on bank credit card interest, among other things, may heighten consumer activism, according to the newsletter.

This and other factors may lead consumers to comparison shop for credit cards the way they shop for best buys on appliances and automobiles.

"Consumers are switching (banks) by the millions," said Steve E. Goodman, associate editor of the newsletter, in a telephone interview. "Banks that offer low-interest rates are being swamped by applications."

According to the newsletter's poll of the nation's 200 largest banks, the lowest interest rate on a bank card, 10.5 percent, is offered by the First Commercial Bank of Little Rock, Ark. The highest: 22.2 percent, by NCNB South Carolina in Columbia.

There's nothing to prevent a resident of Anchorage from applying for credit cards offered by banks Outside. In fact, many Alaskans do, according to Elgie Holstein, Washington, D.C., director of Bankcard Holders of America.

All you have to do is write to the bank and apply for a card.

"I do know that Alaska residents, like residents elsewhere in the country, are carrying credit cards issued by a local bank and also carrying a large number of cards issued by out-of-state banks," he said.

The average bank credit card interest is 18.5 percent, he said, even though interest rates on mortgages, cars and other loans "have fallen dramatically."

Holstein said the variation in rates here in Anchorage is not unusual.

"Regardless of where you live," he said, "you should shop around for the best deal on

credit cards."

Bankcard Holders of America will mail you a list of bank interest rates from across the country for \$1.

"If there's a dispute over a charge, you have to put it in writing," he explained. "So, it doesn't matter if the bank is two blocks away or 2,000 miles."

Of the 82 million people in the U.S. who carry bank credit cards, almost two-thirds (63 percent) say they would be willing to switch to a card with a lower interest rate, according to the Bank Credit Card Observer.

Though there is a push in Congress for a national ceiling on interest rates, the banking industry opposes it.

"Legislation is not necessary unless there is evidence of a monopoly in the marketplace," said Mary-Liz Meany, Washington, D.C. spokeswoman for the American Bankers Association.

"With the issuance of bank cards, this isn't true. There's quite a lot of competition."

She said it's dangerous to compare credit card interest rates with interest charged for other types of consumer loans.

"They (card loans) are unsecured loans, risky loans, more expensive to process," Meany said. "The cost of administering the program is very high."

She said credit cards make less money for banks — 1.68 percent of balances before taxes — than mortgages (2.24 percent), installment loans (2.32 percent) or commercial loans (2.91 percent).

And the fees for credit cards are "more accurately described as service rates,"

Meany said. "They are a tremendous convenience and they are very popular."

However, in its February issue, Consumer Reports noted that last year consumers owed some \$70 billion in outstanding credit balances, "a virtual gold mine for card issuers, especially those who've planted millions of cards in the wallets of consumers."

The magazine reports that "lenders also believed that consumers were not sensitive to interest rates because they are hooked on their cards, and the lenders felt free to charge whatever interest the traffic will bear."

However, sensitivity by banks may be growing. Late last year Citibank, the largest issuer of credit cards in the country, dropped its rate from 19.8 percent to 16.8 percent on its premium cards. Chase Manhattan, the third largest credit-card issuer, quickly reduced its regular Visa and MasterCard accounts from 19.8 percent to 17.5 percent.

By law, Alaska banks cannot assess card holders more than 18 percent interest annually on credit balances of less than \$1,000.

For accounts with balances exceeding \$1,000, the interest rate floats 5 percentage points above the discount rate set by the Federal Reserve Bank — currently 5.5 percent.

The restrictions don't apply to out-of-state banks with branches in Alaska.

Rainier Bank Alaska offers a 15 percent interest rate — the same rate Rainier Bank charges its Washington customers. Transactions are processed through Seattle.

Seattle First National Bank processes transactions for four Alaska banks: Alaska National Bank of the North (15 percent), Alaska Mutual Bank (18.5 percent), Mount McKinley (18.5 percent) and First Bank (18.5 percent).

With SeaFirst's acquisition last month of the bank card operation at Alaska Bank of the North, the number of Anchorage institutions that issue and process their own cards shrank to three: two credit unions and a bank.

Competing with Alaska USA Federal Credit Union's 13.9 percent is Alaska Federal Credit Union's 14.85 percent. You must be a member to get a card. Alaska Federal charges no annual fee for use of a card. However, there is no grace period.

The one bank in Anchorage that issues its own card is First National Bank of Anchorage. The interest rate is 18 percent on the

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## CREDIT: It pays to shop around

Continued from Page D-1

first \$1,000 and 10.5 on anything above.

The bank offers a 25-day grace period and charges a \$20 annual fee.

Though there are only three financial institutions that issue and process their own cards, Alaska Bank Card Center processes cards in the name of 21 other financial institutions statewide. The center is a wholly owned subsidiary of National Bank of Alaska, the state's largest bank.

Rates for National Bank of Alaska's 50,000 cardholders are the same as those offered by the First National Bank of Anchorage.

Local bank officials say they encourage shopping around.

"I think people are becoming more cognizant of the different interest rates charged," said Vicki Wilts, member services manager for Alaska Federal Credit Union.

"Before, it didn't matter. People said, 'Give me the card and let me do my shopping.' We're now looking at a younger generation, the 28-to-45 age group, which is educated about how to spend money wisely."

Joan Easley, branch manager for Rainier Bank Alaska, agreed. "This is a sophisticated population that is very much aware of what interest rates are doing," she said. "We get calls from people who want to change cards."

Because rates in Alaska are lower than other parts of the country, out-of-state consumers apply here for Alaska cards, said Gloria Rager, bank card coordinator for Alaska Mutual Bank. "We get calls from East Coast consumers two or three times a day. People can afford to be choosy."

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□ Write Bankcard Holders of America at 333 Pennsylvania Ave. S.E., Washington, D.C. 20003.

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# Hidden costs may offset low rates

By JANE CARTWRIGHT,  
Daily News reporter

**D**o lower interest rates on your bank credit card mean lower cost?

In its February issue, Consumer Reports warns: "Before you leap for the nearest interest-rate break, you should know about the creative ways banks and thrift institutions have found to charge you more even as they charge you less."

The magazine urges consumers to consider the following:

- **Annual fees.** A card with a lower interest rate may come with a higher annual fee. When Citibank lowered its interest rate, it raised the annual fee on premium-card accounts from \$40 to \$50.

- **Tiered pricing.** Some banks charge a higher interest fee on lower outstanding

balances and a lower interest fee on higher ones. Norstar Bank of Maine charges customers 15.5 percent on card balances of \$1,000 and over, 18.5 percent on balances below \$1,000.

- **Grace periods.** Some banks have started offering cards at a lower interest rate, but with no interest-free or grace period. Traditionally, a customer could pay off the entire unpaid balance before the normal 25-day grace period lapsed and incur no finance charge.

"Some banks have told us they make more profit by reducing the rate and wiping out the grace period," Robert Heady, publisher of The Bank Rate Monitor, is quoted as saying. His publication tracks interest rates.

Last fall, First Financial Savings, a

See Page D-2, HIDDEN

## HIDDEN: Low rates may belie actual cost

Continued from Page D-1

Wisconsin bank, began offering some cards at a 14.9 percent interest rate, but eliminated the grace period.

- **Consumer Reports notes:** "Let's say you make five \$50 purchases during a billing cycle and pay in full two weeks before the bill's arrival. With the normal 25-day grace period, you'd owe no interest."

"But without a grace period, those purchases would cost you \$3 to \$4 in interest even on a card with a relatively low 14.9 percent interest rate."

- **Variable rates.** Other banks offer a low-rate card, but the rate is variable. Marine Midland in New York, for example, offers a card with a 14.9 percent variable rate. The bank changes the rate every quarter according to a number of factors, including the cost of the funds. The rate, however, is not pegged to any outside index.

If you pay off your credit-card balances regularly and don't incur finance charges, a much higher rate down the line won't make much difference. But if you carry credit balances, it could.

"Before looking for a credit card that offers the best features in the crazy quilt of pricing schemes, consider first how you use credit," the magazine suggests. "If you are a 'convenience' user, who pays off balances promptly each month thus incurring no finance charges, grace periods count but interest rates do not."

"If you're a true credit user, who allows your unpaid balances to revolve into the next billing period, look for a lower interest rate. And, of course, the more heavily you charge, the more you'll save with the lower rate."

"When evaluating credit-card offers, look carefully at the fine print before you sign up. Check the annual fee. Does the bank charge you

interest at a higher rate if you purchase less on your card? Are there transaction fees for cash advances or even purchases?

"Your best bet is still with an old-fashioned credit card with a low interest rate, low annual fee, and the grace period. Such offers are likely to come from financial institutions that are trying to get more cards into the hands of consumers, rather than from banks that already have a large credit-card consumer base."

Consumer Reports notes that "pricing can be subtle."

Consider First Deposit National Bank in Tilton, N.H. It offered by mail a Visa card with no annual fees, no transaction fees, lower minimum monthly payments and a 1 percent rebate on every purchase made with the card.

The catch?

To get the card, you had to take out a \$1,000 cash advance at a hefty 21.9 percent interest rate.

TESTIMONY BEFORE SENATE LABOR & COMMERCE COMMITTEE

Mr. Chairman, my name is Wes Coyner and I am representing the Alaska Bankers Association who support passage of SB87. This bill is, in fact more of a consumer bill than a banking bill.

What this bill will do is provide a single legal maximum interest rate on the outstanding balances on credit cards.

Under current Alaska law we have a two tier interest rate structure which is outdated, and a relic of the days of high interest rates and high inflation.

We now have a maximum rate of 18% on the first \$1,000 owed on local bank cards and a lower rate on balances over \$1,000 that floats at five points above the federal discount rate. The discount rate has fallen recently and this lower rate on balances over \$1,000 is now 10.5%. That is the problem - rates are too high on balances under \$1,000 and too low on balances over \$1,000.

As a result of our current two tier system approximately 150,000 Alaskans who have VISA and MASTERCARGE cards issued by Alaska banks, are not getting the full benefits of falling interest rates in todays market.

In addition, current statute places Alaska banks, who offer credit cards, at a competitive disadvantage with out of state banks who have captured approximately half of the Alaska credit card market. Ironically, most of those banks charge a higher interest rate than local banks.

Further, existing law discourages Alaska banks from issuing new cards, which in turn effects the number of people employed in their card operations and forces many Alaskans to use out of state cards at higher rates than Alaska law allows. State laws do not apply to out-of-state banks and credit unions who issue cards under more liberal laws of their home states, in the case of banks, and federal regulations for credit unions. Thirteen states have no limit and all but five states allow rates that vary from 18% to 30%. However, the legal maximum is not necessarily the rate charged.

As a side note, and as an example, Alaskan National Bank of the North recently sold their credit card operations to Seattle First National Bank. They reduced employment in that department by 10-14 employees and now Seattle First will be offering Alaska customers a card from Seattle at a 15% single rate not regulated by Alaska law but by Washington state.

Existing law allows our competitors from out of state to do things that we cannot do, and the law in its present form is not beneficial to lower income consumers.

We have a situation in which most of Alaska-issued card owners (approximately 2/3), who carry relatively low balances, wind up paying the maximum 18%, while a minority of the more affluent, who qualify for the premium bank cards with larger credit lines, can carry large balances and pay 10.5% on some of it. Consequently, to make up for lower earnings on this money, banks must push the rate to the maximum 18% on the lower balances. This has the effect of the more affluent using the cards as a source of cheap consumer credit and being subsidized by the average consumer who carries a smaller credit balance.

Our current structure has created inequities for banks doing business in Alaska, who want to provide jobs, and for the small or average consumer who desires a lesser interest rate.

Passage of SB87 would correct those inequities.

Banks would be able to compete on even terms with out of state banks by providing more cards to Alaskans seeking them, thereby expanding their card base, which in turn can lead to expanded operations and employment.

Most consumers would benefit by having one rate to consider rather than the confusing two tier system that now penalizes the lower balance user.

For those who are concerned about a maximum rate of 18% as set forth in SB87, Alaska banks are presently perceived to be an 18% card, when truly they are not. We cannot survive with an image of having an 18% card when our competitors are offering cards at far less.

In this regard, one of the two remaining Alaska banks offering credit cards will commit, in today's market, to a single or blended rate of 16.5%, or less, with passage of SB87. Thus, immediately reducing the 18% rate currently being paid by the approximately two thirds of holders of Alaska issued cards. Competition will certainly dictate that the other bank review the market to protect their interest.

Our current, out of step law, no longer protects or benefits the average consumer, who it was designed to protect and has put Alaska banks into a disadvantaged position against out of state card issuers.

SB87 will correct these problems and benefit both the consumer and the banks doing business in Alaska and creating employment.

The earlier this suggested change can be implemented, the sooner banks can compete by the same basic ground rules as out of state competitors and the sooner the consumer can take advantage of the lower interest rate at least one bank will commit to today and the other bank will review based on market conditions.

# INTERNATIONAL CONSUMER RESEARCH INSTITUTE

RESEARCH AND PROGRAMS TO ADVANCE CONSUMER INTERESTS

Jo DeMars  
Executive Director

Henry S. Reuss Federal Plaza  
Room 1201

Milwaukee, WI 53203  
414/271-1477

MEMORANDUM TO:

Consumer Colleagues

FROM:

Jo DeMars

SUBJ:

Bank Card Research

DATE:

January 26, 1987

I am pleased to share with you the results of a major piece of research that I hope will be of real value in the growing consumer effort to bring down the excessive interest rates being charged on many bank credit cards.

As you may know, the International Consumer Research Institute recently sent a questionnaire across the country to find out what people who care about consumers think of credit card interest rates. Well, it was almost unanimous -- 95 percent of those who responded said rates are too high.

What would be a fair rate? The overwhelming majority said 12 percent or less. That's fully six percent below the national average for bank credit cards.

We thought it was important to get this information out to the media right away. We also thought it was important to get to the media the "real numbers" on who is charging what. So we contacted one of the companies that survey banks.

We now have two solid pieces of information for the media. We have our own public opinion survey of consumer leaders who are virtually unanimous in saying rates are excessively high, and "rate data" for individual banks.

The ICRI has put this information together in a news release and mailed it to the media. Enclosed is a copy of what we sent.

If you are planning to be in contact with media in your area as part of the national effort announced earlier this month, please urge those journalists to publish the information that consumers really need on bank card rates.

And if our organization can be of any assistance to you in your own efforts to mount the fight against high credit card interest rates, write or call me here in Milwaukee. We have access to more data, and can also share with you a copy of a study done with the University of Wisconsin Center for Consumer Affairs that shows how important it is to get a strong educational effort going.

When you realize that today there are banks charging as much as 22 percent interest on consumer credit cards, while their "best customers" get loans at a prime rate of 7.5 percent, you also realize how important it is to get this information out...and get it out quickly.

# ICRI NEWS RELEASE

INTERNATIONAL CONSUMER RESEARCH INSTITUTE  
Henry S. Reuss Federal Plaza, Room 1201; Milwaukee, WI 53203

FOR RELEASE  
JANUARY 29, 1987

FOR INFORMATION:  
Ed Dooley  
Christopher Smith  
(202)659-5656

## CONSUMER LEADERS SAY BANK CARD RATES TOO HIGH

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MILWAUKEE, WI., January 29, 1987 -- America's consumer leaders are virtually unanimous in their belief that credit card interest rates are too high, with the overwhelming majority saying that an annual rate of no more than 12 percent is "about right", according to a survey released here today.

The survey, conducted by the International Consumer Research Institute (ICRI), found that 95 percent of the respondents believe banks are charging excessive interest rates on credit cards. When asked what rate they believed was "about right", 82 percent said 12 percent or less.

"At a time when the prime rate has fallen to 7.5 percent and lots of car loans are even lower, it's unbelievable that the national average for bank cards is still more than 18 percent," Jo DeMars, executive director of the ICRI, said.

DeMars noted that despite the dramatic drop in general interest rates over the last five years, credit card interest rates have actually risen. In 1980, when the prime rate stood at 18.39 percent, the average credit card

## CONSUMER LEADER SURVEY

PAGE TWO

rate stood at 17.31 percent. Today, the prime rate is down more than 10 percentage points, but credit card rates have gone up. The national average is over 18 percent, and some banks charge in excess of 22 percent annually.

The nationwide survey of consumer leaders was undertaken between January 5th and 23rd, and results are being released to coincide with the efforts of a coalition of six national consumer organizations who are urging Americans to fight high credit card interest rates (see attached *Wall Street Journal* story).

These consumer organizations are advocating a national information and action campaign to convince consumers to switch to lower interest cards. A survey conducted a year ago found that consumer leaders believe Americans do not have the kind of comparative information they need to make informed decisions about which cards are the best value.

As a consumer issues organization, the International Consumer Research Institute has been working with state and national consumer groups, as well as *Bank Credit Card Observer*, a leading industry newsletter, to disseminate information on credit card interest rates and terms.

CONSUMER LEADER SURVEY

PAGE THREE

ICRI believes that forewarned is forearmed -- and only the informed consumer is forewarned. Enclosed with this release, is a table showing the wide range of rates and terms available to users of bank credit cards. All of the cards listed in the table are available nationally. Banks in your city can provide rates and terms available locally.

With the average bank card interest rate for January in the nation in excess of 18.00 percent, reflecting a spread of 10.50 to 22.20 percent, American consumers have real credit card options, but only if they know what these options are.

# # #

# THE WALL STREET JOURNAL.

## Journal to List Rates On Bank Credit Cards In Table Each Month

By *WALL STREET JOURNAL* Staff Reporter

NEW YORK — Beginning today, The Wall Street Journal will publish a monthly table of selected bank credit card interest rates and terms.

The table, prepared by Bank Credit Card Observer, a newsletter published in Iselin, N.J., will list banks with the lowest rates on credit cards such as Visa and MasterCard among about 200 banks surveyed. All of the banks listed make their cards available to customers nationwide. For each bank, the table will list the annual fee to cardholders and the grace period, or time after purchases during which interest isn't charged.

The table also will list bank credit cards available nationwide that charge no annual fee. Such cards may be of interest to the approximately 36% of cardholders, by the newsletter's estimate, who pay their credit-card balances in full each month.

Currently, the survey shows only two no-fee cards, issued by Mercantile Trust Co. and Centerre Trust Co., both based in St. Louis. They carry interest rates of 19.8% and 22%, respectively.

The lowest rate in this month's survey is 10½% on cards issued by three Arkansas banks. Arkansas law limits credit-card interest to five percentage points above the Federal Reserve's discount rate, currently 5½%.

Bank credit-card rates have drawn increasing attention recently. Last week, a coalition of consumer groups launched a campaign to encourage consumers to switch away from high-interest cards. And the treasurer-elect of Illinois has criticized First National Bank of Chicago for the 19.8% rate it charges—a rate typical among large banks with major market shares in the credit-card business.

## Bank Credit Card Interest Rates

January 1957

Banks with low interest rates offering bank credit cards nationally. Rates shown are for regular, not premium, cards and apply this month unless footnoted.

Bank	Rate	Fee	Grace Days
Union Natl. Little Rock, AR	v10.50%	120.00	00
Summons 1st Natl. Pine Bluff, AR	v10.50	22.50	25
Twin City, N. Little Rock	v10.50	22.50	25
Union Trust, Stamford, Conn.	11.75	20.00	30
Republic Natl of Miami	v14.00	22.00	30
Society Natl. Cleveland	14.05	20.00	30
Utd. Bk & Tr. Hartford, Conn.	15.00	20.00	30
Conn Bk & Tr. Hartford	15.00	25.00	25
Phila Sav Fd Soc. Morsham, Pa.	v15.42	18.00	25
Idaho 1st Natl. Boise	v15.58	18.00	30
Bk of New Eng. Boston	15.72	21.00	25
Meridian, Reading, Pa.	15.73	15.00	25
Shawmut Bk NA, Boston	15.84	24.00	30
First Florida, Tampa	16.00	24.00	30
Zions 1st Natl. Salt Lake City	v16.50	20.00	28
State St Bk & Tr. Boston	16.50	25.00	28
Fleet Natl. Providence, RI	16.70	20.00	30
Norstar NY, Albany, NY	16.80	15.00	25
Dollar Dry Dock, New York	16.80	20.00	30
Mitsui Mfgers. Los Angeles	v16.95	20.00	30
Bank of New York	v16.98	18.00	30
Provident Natl. Philadelphia	16.99	18.00	25
1st Amer Natl. Nashville	17.00	15.00	25
Pittsburgh National	17.00	18.00	25
Republic Nat Houston	17.25	20.00	25

Banks without any annual fee offering credit cards nationally.

Mercantile Tr. St. Louis	19.80		25
Centerre Tr. St. Louis	22.00		20

v-Variable rate. 00-Interest charged from date of posting. pu-Interest charged from date of purchase.

Source: Bank Credit Card Observer, Iselin, N.J.

# THE WALL STREET JOURNAL.

## Consumer Groups Increase the Pressure On Banks to Lower Credit Card Rates

By JOHN R. DURFMAN

Staff Reporter of THE WALL STREET JOURNAL

Consumer groups stepped up their pressure yesterday for banks to lower credit card interest rates.

In news conferences in six cities, leaders of a coalition of major consumer groups called for consumers to "fight and switch" by discarding high-interest credit cards and substituting credit cards from other banks.

"We think the big banks have just been plain greedy," said David Berliner, assistant director of Consumers Union, based in Mount Vernon, N.Y. He charged that most banks have failed to lower their rates on credit cards even though the cost of funds is down dramatically.

"If bankers ran gas stations, we'd still be paying \$1.40 per gallon," said Neil Fogarty, president of the Consumers League of New Jersey.

Joining in the "fight and switch" coalition were the Washington, D.C.-based groups Consumer Federation of America, Bankcard Holders of America, Public Citizen and the National Consumers League. Also in the coalition are many state and local consumer groups.

### Six Banks Criticized

For special criticism, the coalition selected six large banks that it said issue about one-fourth of the nation's credit cards. The six were New York-based Citibank, which charges 19.8% interest on credit card balances; San Francisco-based Bank of America, 19.8%; New York-based Chase Manhattan Bank, currently 19.8% but dropping to 17.5% on Feb. 1; New York-based Manufacturers Hanover Trust Co., 17.8%; Chicago-based First National Bank of Chicago, 19.8%; and New York-based Chemical Bank, 19.5%.

In contrast to those rates, Gary Serota, president of Bankcard Holders, said that his group publishes a list of some 50 banks across the country with credit card interest rates of 16.5% or less. The banks are grouped by region. Some, but not all of them, issue credit cards nationwide.

In the most recent survey of 200 banks by Bank Credit Card Observer, the best interest rates available from banks that offer cards nationwide were from three Arkansas banks—Union National Bank in Little Rock, Simmons First National Bank in Pine Bluff, and Twin City Bank in North Little Rock. All three were charging 10.5%, in keeping with an Arkansas law that limits credit card interest rates to five percentage points above the Federal Reserve's discount rate. Republic National Bank in Miami was charging 14%, and Society National Bank in Cleveland was charging 14.05%.

Representatives for the six criticized

banks said that the rates charged are appropriate. "The cost of funds is less important for credit cards than it is for other loans," said a representative for Chase Manhattan. "You're dealing with millions of small transactions, each of which must be processed separately."

The Chase representative also noted that its premium cards will soon carry an interest rate of 16.5%, and that all of its cards offer "a substantial number of enhancements," such as travel rebates, collis on insurance on rental cars and waiver of the annual fee when charges exceed a threshold amount.

Such enhancements didn't seem to carry much weight with the consumer-group leaders. Banks "refuse to compete on the basis of price" in the credit card market, said Mr. Serota. Instead, he charged, they compete on the basis of "unnecessary perks" such as "luggage tags or the chance to use a health club in Singapore when you travel."

A representative for Chemical Bank said, "We are currently conducting a review of our pricing structure. We will be innovative in responding to consumer needs."

A Manufacturers Hanover spokesman said, "We were the first of the major banks to drop our rates, from 19.8% to 17.8% in 1985." That step was taken to reflect a decline in the cost of funds, he said, and has been well-received by consumers. Manufacturers Hanover has issued more than one million credit cards since September 1985, he said.

### 'Value and Choice'

A Citibank spokeswoman said only, "We believe our cards provide value and choice to the consumer."

A spokesman for First National Bank of Chicago said the bank believes its fee structure is appropriate, "given the high costs associated with providing this convenient form of consumer credit."

A representative of Bank of America said that the bank believes its credit card interest rate is "below that of other major banks in California, and competitive with savings and loans "at offer an equal grace, or interest-free, period."

In a related development, the treasurer-elect of Illinois, Jerome Cosentino, recently threatened to withdraw state business from First National Bank of Chicago, a unit of First Chicago Corp., because he considered First Chicago's 19.8% interest rate on credit cards too high. As reported last Friday, First Chicago has moved to expand its credit card operations by buying a Delaware bank, Beneficial National Bank USA of Wilmington, from Beneficial Corp. Delaware doesn't regulate interest rates or annual fees on credit cards.

## CONSUMER BANK CARD CHOICES

RATE	BANK	FEE	TERMS
10.50%	UNION NATIONAL (AR)	\$20	No Grace Period
11.75%	UNION TRUST (CT)	\$20	30 days on new purchases
14.00%	CHEVY CHASE SAVINGS (MD)	\$18	30 days on new purchases
14.05%	SOCIETY NATIONAL (OH)	\$20	31 days on new purchases
15.58%	IDAHO 1ST NATIONAL (ID)	\$18	30 days on new purchase
19.80%	CITIBANK (S.D.)	\$20	30 days on new purchases
19.80%	MERCANTILE TRUST (MO)	\$0	25 days on new purchases
19.80%	BANK OF AMERICA (CA)	\$18	25 days on new purchases
20.40%	SECURITY PACIFIC (CA)	\$15	25 days on new purchases
21.60%	BANK ONE (OH)	\$30	30 days on new purchases
22.20%	VALLEY BANK (NV)	\$15	28 days on new purchases

Rates are subject to change. This information does not guarantee rates or terms.

SOURCE: Bank Credit Card Observer, Iselin, N.J.

Original sponsor: Labor & Commerce  
Committee

1 IN THE SENATE

BY THE LABOR AND  
COMMERCE COMMITTEE

2

CS FOR SENATE BILL NO. 87 (L&C)

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6 For an Act entitled: "An Act relating to the credit card interest rate  
7 that may be charged by certain financial institu-  
8 tions."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 \* Section 1. AS 06.05.209(b) is amended to read:

11 (b) A bank may issue a credit card or other similar credit-  
12 granting device to a customer for obtaining money, goods, services or  
13 anything else of value and the bank, when credit is extended under  
14 this section, may impose a service charge at a monthly rate that  
15 results in an annual rate not in excess of 17 percent on the out-  
16 standing balance [THE LIMITS FOR SERVICE CHARGES PROVIDED IN AS 45.-  
17 10.120(c)]. However, in addition, when cash is advanced under this  
18 section, the bank may impose a setup charge that [WHICH] does not  
19 exceed three percent of the funds advanced, or \$12, whichever is less,  
20 except that on loans of under \$100 a minimum not exceeding \$3 may be  
21 charged.

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one-half percent a month on the outstanding balance [THE LIMITS FOR

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