The Case Against Chase

Issue Backgrounder

THE CASE AGAINST CHASE

THE ISSUE

- Chase Card Services has imposed an unfair and unprecedented change in terms notice on account holders who were promised 2.99% to 4.99% "fixed APR Until the balance is paid in full" long-term loans in a series of ongoing and aggressively promoted offers.
- Chase account holders who received the low rate offers were told that the promotion constituted a "Rate Reduction for our most Valued Cardmembers."
- The new terms constitute "payment-jacking" by radically increasing the minimum monthly payment that must be made by account holders.
- Chase planned its own set of "alternatives" in advance to deal with account holders by herding most of them into a few options, all of which were very bad for consumers:
    - 1) get consumers to give up their previously promised promotional rates, by agreeing to a new higher, limited duration rate, typically doubling the previously touted promotional rate (a tactic otherwise known as "bait and switch");
    - 2) force consumers to pay their entire balance with Chase and close their accounts (essentially this means that the loans became "demand notes");
    - 3) perhaps drive some account holders into default and far more usurious (e.g., 30-something percent) rates, given that new minimum monthly payments would be dramatically increased. For example, at 2% of the balance, the monthly payment on a $12,000.00 loan would be $240.00, whereas the new payment would increase to $600.00.
- Chase imposed the change in terms on account holders who were fulfilling their payment obligations (given that account holders would have already been "rate-jacked" into paying the aforementioned far more usurious rates).
- Chase has and is continuing to obstruct account holders and disseminate false or misleading information in the media and in other venues, in an attempt to deflect scrutiny or otherwise justify its actions.

CHASE LIES AND DEFLECTIONS (REFUTED)

- Without apparent deeper questioning, members of the media have often simply quoted Chase spokespersons who have minimized the issue by stating that "changes affected less than one half of 1 percent" of accounts. However, Chase has reported elsewhere that "Chase's credit card portfolio consisted of over 156 million cards issued," (page 2, paragraph 2, of cited document), or, "more than 100 million Chase credit card customers" (page 1, paragraph 2, of cited document):

- Depending on how Chase is defining "accounts" versus "cards issued" or "customers," this matter of how many people are affected is not to be minimized; .5% of 156 million, for example, would mean that 780,000 people received change in terms notices.
- Because accounts may be held by people with families, a single change in terms notice may adversely affect several individuals.
- Small business owners may use either business or personal credit cards as a source of capital for start-ups or to get by relative to personal finances. Accordingly, entrepreneurs and their employees (and their families, and so on) are being impacted.

- Chase ("only") "aimed at those who had carried large balances for more than two years while making little progress in paying them off" (Ron Lieber, NY Times, January 30, 2009). **CHANGEINTERMS.COM** vigorously rejects this attempt to deflect the issue on the part of Chase:
  - It was Chase itself that established that minimum payment amount, all along.
  - The balance transfer of $20,250 on September 5, 2006 taken by Dr. Robert Lahm (founder of **CHANGEINTERMS.COM**), has been paid down to a current balance of approximately $11, 524.74 (on or about January 8, 2009), almost half; and yet, he still got the same notice.
  - Affected account holders are "entitled" to pay only the minimum; Chase is "entitled" to collect payments consisting of principal and interest on the loans (e.g., balance transfers) that it offered; for example, at a "3.99% fixed APR, Until the balance is paid in full" rate of interest.
  - Financial advisers would suggest paying those loans with the highest interest rate, first. Therefore, why would an account holder (who may have other obligations such as car loans, a mortgage, or a student loan) go against the advice of financial professionals and pay Chase off first?
  - Chase has claimed that it (only) "aimed at" those account holders who have made "little progress in paying them off." In keeping with that claim, Chase missed, when it "aimed at" Dr. Lahm. But why, after what should have been a "human review" of the account and multiple rounds of correspondence with representatives at the highest level, does Chase persist in imposing changes?
  - One can easily discern that this is an act of "blowing smoke," on the part of Chase, given that individuals with low credit scores would have never been considered eligible for promotional offers at attractive low rates of approximately 2.99% to 4.99%, in the first place (which Chase has decided it doesn't want to honor, anymore).
- Chase spokespersons have declared before the media that there is no "opt out," which is a very troubling omission in the actual change in terms notice, especially given previous testimony before Congress by Chase executives (advancing the argument that regulation was not needed since the industry was policing itself). The testimony stated that Chase treated customers "fairly"

and executives used a detailed description of "opt outs" to illustrate that point. Chase executives obviously lied.

- Chase spokespersons as well as correspondence from Chase (and reports from consumers attempting to negotiate by phone) are insistent on calling a new $10 monthly charge, a "service charge," but according to the change in terms notice: *"The charge is $10 per month ($120 total annually), and it is a finance charge."* Thus, the promotional rate has been violated. Note that the founder of the **CHANGEINTERMS.COM** site pointed out to the CEO of Chase Card Services that, apparently, Chase had for once, made a mistake with its own "fine print."

CLASS ACTION SUITS

- Michael E. Moore and Diane M. Rooney, Plaintiffs, v. Chase Bank USA, N.A., Defendant, as filed by Lieff, Cabraser, Heimann & Bernstein, LLP.
- Brian Woods and Kain Macy, on behalf of themselves and all others similarly situated, Plaintiffs, v. JP Morgan Chase & Co. and Chase Manhattan Bank USA, N.A., and DOES 1 through 100, inclusive, Defendants, as filed by Kiesel Boucher Larson, LLP and additional counsel, Giskan Solotaroff Anderson & Stewart, LLP.
- Under investigation by Girard Gibbs, LLP.

WHY IT MATTERS

- Credit card companies have indeed gone to war. But is it against losses, or against the very customers whose relationships, if they were managed "fairly," ethically and responsibly, would prevent those losses from occurring in the first place?
- Destroying relationships that are associated with "good-paying" account holders is no way to run a bank (or any business!); nevertheless, financial institutions need to be well-run if American taxpayers' are ever to receive their bail out money back (or rebound in terms of the economy at large).
- People who run financial institutions should always rise to take the moral high ground, not sink to the lowest level possible in terms of playing "dirty" with customers.
- With home values falling, and higher prices for food, health care, gas (it will rise again – oil companies have already reported record profits, along with a willingness to "stick it to consumers"), and other expenses, consumers may turn to credit cards (not that they should, but should they be squeezed so mercilessly, as Chase is doing?).
- Following the "mortgage meltdown," if financial institutions fail to properly (e.g., ethically and fairly) manage account "relationships," we may well be headed to the next crisis, this time, a "plastic meltdown."
- Given that Chase is the recipient of $25 billion in taxpayers' bail out money (the use of which it refuses to explain), every American should be concerned by a lack of sound management or ethical practice with respect to Chase, as well as all financial institutions. After all, mismanagement and abhorrent behavior are how we arrived where we today, with an economy in turmoil:

- If you are one of the lucky individuals in this life who happens to carry no credit card balances, keep in mind that this is an economic issue.
- This is a justice, due process, and fairness issue.
- As the "mortgage meltdown" has already demonstrated, when foreclosure signs "spring up in your neighbors' yards," like weeds, they are likely to spread; credit card issues will spread, and they will eventually impact you, or your children, or someone else you may love and care about.
- If you have no mercy, empathy or understanding, or ability to grasp the long-term implications associated with this issue, but are in need of employment, we might suggest the credit card industry (where you should surely "fit in").

- SBA reports indicate that approximately half of small businesses use personal credit cards as a source of capital:
  - Additional analysis suggests that "by multiplying the credit card usage rate by the number of small firms…[it can be], estimated that somewhere in the vicinity of 8.5 million businesses with zero employees across all industry sectors were using personal credit cards as a source of capital in 2002. Usage rates as well as the total number of businesses have both increased since that time."
  - Even if personal versus business credit card account types are separate, from the point of view of actual practice, if a small business owner does not produce enough cash flow through his or her business in a given month, then obviously, he or she might charge tires, or dental work, or other personal expenses on a credit card. Money may come out of an entrepreneur's "left pocket," or his or her "right pocket," but it's still the same pair of pants.
  - Small businesses are vital to the economy, as they "represent 99.7 percent of all employer firms" and "employ about half of all private sector employees" (SBA, 2008).
- Consumers have been abused by credit card companies for years, and with a fragile economy, new Regulation Z rules are not going to be enough, soon enough.
- This issue is all about fairness, or the lack thereof when it comes to the way that credit card companies treat consumers. Banks have enjoyed an unfettered ability to "do as they please" in an environment that is entirely too comfy and cozy with regulators and lawmakers. For example, correspondence between a Chase attorney, Andrew T. Semmelman, and the Federal Reserve Board, negotiating Chase's position and sentiments prior to the passage of new rules under Regulation Z, indicated that even though Chase wanted (and received) 18 months to comply with new FED rules, it argued that customers should only need 15 days to comply with Chase's new rules (some "compromise," consumers will get 45 days notice once the new rules kick in).

- According to a Government Accounting Office (GOA) report (page 14), as of "2005, consumers held more than 691 million credit cards," as compared to Chase's 159 million cards issued (in 2008):
    - (Therefore, as a leading card issuer) the entire credit card industry is watching Chase, and if Chase is successful in imposing its change in terms with no repercussions, other credit card companies may very well follow Chase's lead. This could be a devastating and unfair blow to the economy, keeping in mind that affected account holders have been meeting their obligations, and such changes would simply push families and small businesses "over the edge" at a time when this is absolutely the wrong thing to do.

RESOURCES

- Note that we have compiled a significant list of resources on the **CHANGEINTERMS.COM** site, and below is merely a sampling:
    - Credit card statistics and industry facts (compilation).
    - AnnualCreditReport.com.
    - CreditSlips.org.
    - Delinquency Rates.
    - Maxed Out Preview.
    - Never Never Never
    - Secret History of the Credit Card.
    - Worst Credit Card Practices.

FOR CONSUMERS: WHAT YOU CAN DO?

- WRITE YOUR LOCAL NEWSPAPER(S).
- Contact other members of the media (especially in your local area, or those whose primary focus is consumer/small business issues, the economy, and other related topics).
- Write ANY congressman/congresswoman (HOUSE and SENATE).
- Write your State's congressman/congresswoman.
- File an official OCC complaint (even if we prove that the OCC doesn't really help, that could be a pivotal argument for changing the terms under which the OCC operates, or expanding the powers of other agencies, such as the FTC).
- Write to Chase Card Services CEO Gordon Smith, or JP Morgan Chase (the parent company) CEO Jamie Dimon.
- Write to Chase affinity partners, and let them know that their own brands could be tarnished as a result of their association with Chase.
- When you see fair and in-depth coverage in the news about this issue, call, write, email, or post a comment that thanks the responsible journalist.
- Call "any/all of the above."
- If you can write informed, well composed (spelling and grammar-checked), "PG or G-rated" research-based posts, articles, press releases, or other content for

the **CHANGEINTERMS.COM** site, as either a regular author, or a guest author, contact us.

- Use the images we provide to signify you support the cause of ending credit card company customer abuse.
- Link to us, or as some have done, include our RSS feed on your site.
- Buy a T-Shirt or other merchandise such as a bumper sticker to help "spread the word" at http://www.cafepress.com/ChangeInTerms (proceeds are used to support the site and its advocacy efforts).
- Utilize our "*Tired of Credit Card Company Abuse? Make Your Own T-Shirt — Complete Kit With Templates*" free downloadable product (that way, if you don't want to or can't really afford to use the CafePress store, you can make your own); the kit can also be used to send customizable messages to anyone you like: credit card companies, Congressional representatives, journalists, you name it!
- Produce your own YouTube "protest" videos (or help us, we're working on them, too).
- Create a Podcast about the issue, us, or your own insights.
- **CHANGEINTERMS.COM** is on Twitter: http://twitter.com/ChangeInTerms (follow us).
- Keep visiting and commenting on our site (especially, share your own story, if you are willing to tell it), as our site's founder has done.
- If you like what we're doing, trying to fight abusive treatment from credit card companies by attacking this problem at a grassroots level, tell people about us the "old-fashioned way," with word-of-mouth.
- Forward this document (but please, do not SPAM!).

ABOUT CHANGEINTERMS.COM

CHANGEINTERMS.COM is a consumer protest site, created by Dr. Robert Lahm, Jr. (a university entrepreneurship professor), in response to credit card companies and their mistreatment of many account holders (including himself). Dr. Lahm's research agenda includes entrepreneurial bootstrapping (which often involves the use of credit cards as a source of start-up capital), about which he has also addressed in previous testimony before Congress. The site provides vibrant discussion and analysis, links to government, regulatory, and advocacy organizations, and sometimes more than a little sarcasm — along with serious critique — about the activities of credit card companies both individually, and as an industry. While the site laments that it can't actually change terms from a legal perspective, it submits terms and conditions can be changed with credit card companies *from a consumer perspective*. Even with little help from current laws or regulators, consumers can still fight back. The site declares in a message to credit card companies:

NOW WE'RE COMING AFTER YOU