

Buyer Beware Your Credit Card Is Spying On You...

Although you are not aware of it, every time you use your credit card, the affable company that kindly issued you your credit card—making it so convenient for you to shop—is spying on you. The company constantly gathers data about your spending habits, such as where you shop and what items interest you, and uses this to compile a profile of you as a consumer to better understand how to make money off of you. “Buyer beware” was never truer. Brace yourself for a fascinating and disturbing look into the world of credit cards and credit card debt.

Dov Levy



Clive Johnson sat down at the computer on his office desk and began a typical day at work. On the screen in front of him was tons of personal information about a man in Massachusetts. That man was in his mid-30s and had taken out a second mortgage. He also had an outstanding balance on his credit card of \$28,900.97. Johnson's computer told him much more about this man: he was suffering from serious domestic difficulties as well.

Johnson called the man to find out when he planned to repay his debt, but he was careful to begin the conversation on a friendly tone. The man soon opened up and began talking about his difficulties at home. It seems that his wife was a chronic spender who enjoyed her shopping and left her husband to pick up the tab.

"Can you believe it? I borrowed all that money to renovate the kitchen and my wife still won't hold a civil conversation with me!"

"Did you try talking to her?" Johnson asked. "That's always a good idea. Even if you're right, you should try to talk things out."

The man broke down and cried. "Yes, we talked plenty, but I am just so broken by the situation." Then he pulled himself together and his voice shifted suddenly to a much more businesslike tone. "I know I owe the money, but there is absolutely no way I can pay it back."

Johnson spoke quietly. "I understand this is very hard for you. Let's be open. I believe you're an honest, hard-working man and you're doing a very good job. The problem is that the bank doesn't know you and it won't differentiate between you and your wife. A debt is a debt and all the bank cares about is that it gets its money back."

Johnson fell silent while he scanned the information on his screen again. It said more about the man on the other end of the phone than that man would ever believe—such as the fact that he had recently sold his

last home at a loss.

"Listen, there may be something I can do for you."

Clive Johnson works for Sunrise Credit Services, a major debt collection agency employed by Citigroup, Bank of America, HSBC and other large loan institutions. Sunrise collects all the information it can about its targets from various sources and compiles this information into a comprehensive report about the individual or business. Johnson even knows the man's work schedule and when and where he can best be reached.

"Look here," Johnson tells his anxious listener, "I understand that your personal problems are weighing you down. But maybe if we take care of this outstanding debt, it will relieve a lot of your stress and you'll be able to deal with the rest of your difficulties much more calmly. You owe close to \$29,000. How much of that do you think you'd be able to pay?"

The man was angry. "How about telling me what *you* can offer? The government spent all my tax money to bail out the banks, and they ruined the real estate market. And because of that, I lost money when I sold my home. I bailed out the bank and now all they can think about is how they can get more from me. Maybe the bank should be paying me instead of trying to squeeze out of me more and more!"

Johnson wasn't insulted by the man's outburst. It's all part of his work, dealing with all kinds of people every day.

Spying on Citizens

Debt collectors know to never expect a hero's welcome, but in times of economic recession even getting the door slammed in your face can be taken as a good sign. At least it was opened first!

After 20 years of raking in money, credit card companies are at last hitting on hard times. As is well known, many Americans took out more credit than they can afford to pay—a bad habit encouraged not least by credit card companies themselves—and

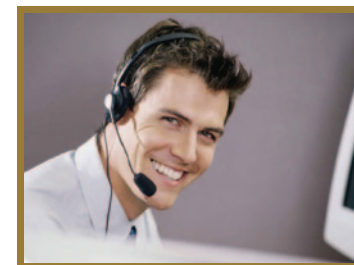
they have defaulted on payments like never before. Credit card companies are expected to lose as much as \$395 billion collectively before the recession turns around.

To pour salt on their wounds, in an effort to protect the average American consumer, Congress has passed laws that severely limit standard practices that credit card companies routinely engaged in until now, such as raising interest rates with impunity and hiding numerous extra fees in the fine letters of credit card bills.

In response to the severe challenges they are now facing, the credit card companies have been forced to change their practices, not only to conform to the new legislation but also to the changed financial landscape

research existing cardholders with large, outstanding debt to determine how much they can expect to recoup and how best to go about obtaining the money.

They also want to know whether an existing client's present credit ceiling is safe: can they afford to allow this person a higher monthly balance or should the allowance be lowered to match the person's credit risk? This information can come from analyzing telephone and utility bills to see whether the client is up-to-date on his payments for other bills. If their information shows someone to be a significant credit risk, a person who is likely to run up high debts and default on them, the company will be quick to take action.



"Look here," Johnson tells his anxious listener, "I understand that your personal problems are weighing you down. But maybe if we take care of this outstanding debt, it will relieve a lot of your stress..."

of America. Instead of lending freely to anyone who asks and assuming that the vast majority will repay no matter how high their debts run, creditors now concentrate on clients whom they trust to repay their debts and expect them to carry the weight of those who default.

But how can credit card companies know which consumers will pay up? The answer is that they find out by spying on them.

For over a decade, credit card companies have studied every aspect of consumers from all walks of life, compiling data and analyzing it to see what characteristics are common to big spenders and which are common to those who repay. Much of the information would seem terribly unimportant to us, but the fact is that everything combines to give credit companies a very useful profile of the people they are dealing with.

In addition to the search for safe clients to issue cards to, credit card companies also

One result of this patient information-gathering and analysis is the conversation Clive had with the troubled consumer from Massachusetts. By the time Johnson picked up the phone to speak to him, Johnson already knew a lot about that individual's private life, and he was carefully trained in the proper techniques for working with him.

Johnson's conversation had left it clear that the man could not simply run away from his debt and also that the bank was prepared to work with him to recoup whatever he could afford to pay. He called Johnson back and said that after speaking the matter over with his wife, he figured they could buckle down and pay \$10,000 of the debt, about 35% of the total, on the condition that the collection agency did not ruin his credit standing.

The truth was that Johnson had already received authorization from the bank to settle for as little as \$10,000 on this debt,