



Written by [Charles Scaliger](#) on May 15, 2009

## Credit Card Meltdown Hits Banks

All that, of course, has changed dramatically over the last year and a half, with millions of Americans suddenly out of work and trying to service huge, high-interest credit card debts with no income and no savings. Credit card defaults are soaring, and much worse is to come, according to the government's recently disclosed bank stress tests. By the end of 2010, says the government, America's 19 largest banks can expect to lose as much as \$82.4 billion in credit card defaults.



Yet this figure, dire as it seems, may be a considerable understatement. If unemployment comes to exceed 10 percent, as seems likely, credit card losses at banks like JP Morgan, Citigroup, Capital One Financial, and Bank of America may be well above 20 percent. And for the entire credit card industry, extending far beyond the stress-tested 19 banks, losses may approach \$200 billion by 2010.

2009 is widely expected to be the worst year in the history of the credit card industry. But that hasn't deterred Congress from seeking to impose tough new regulations on the sector, responding to pleas from hard-pressed credit card users who failed to read the fine print in their credit card agreements. With a hectoring President Obama demanding prompt legislation on credit card reform, the Senate is working to complete a bill that would turn up the regulatory heat on credit card issuers. Under discussion are proposals to limit interest rates that credit card companies can charge and to force greater transparency in credit card agreements.

Credit cards, representing risky, unsecured debt, charge higher interest rates to cover the very great potential for losses from fraud and defaults. With the advent of debit cards, credit cards are much less indispensable than may have been the case formerly; online purchases, for example, can now be made by debiting money directly from checking accounts.

Old habits die hard. A generation of Americans used to running up credit card debt far in excess of personal savings to finance purchases of wants is unlikely to change its ways overnight. For now, some of these naïve souls are expecting government to step in and keep the credit card party going by legislative fiat. But the only thing credit card legislation will accomplish is more losses in an already reeling sector — losses that will doubtless prompt cries for more bailouts in the coming months.



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