I. INTRODUCTION

The role of credit cards within the economy is substantial, as evidenced by both the high volume of bank credit card debt outstanding and by the astounding volume of credit card charges nationwide. Estimates are that Americans will have made $1.9 trillion in bank credit card charges in 2005. And, even with the surge of refinancing and home equity loans within the past few years, there was still about $665 billion in bank credit card debt (excluding store and gas cards) outstanding at mid-year 2005. Within the bank credit card industry, the top three **issuers** control about 60 percent of the market based on balances. Based on charge volume, their control is even more pronounced.

The size and continued growth of the credit card industry evidences the perceived value to the financial community, which includes consumers, **merchants**, and financial institutions. The credit card business is one of the most competitive markets in the world, and the intense competition pressures credit card issuers to develop and market innovative new products. Credit cards are used on a regular basis by a majority of American households to conveniently pay for a wide array of seemingly countless items and services, such as appliances, income taxes, utility bills, fast food, and charitable donations. Those consumers who maintain a strong **credit history** and manage credit responsibly generally are inundated with a wide assortment of credit card solicitations offering eye-catching interest rates and attractive perks, such as gifts, discounts, travel offers, and rebates. Those consumers with an unfavorable financial history or with a limited or absent financial history are usually offered small credit lines that are often largely consumed by a wide assortment of upfront fees and other charges and/or that require a security deposit or other collateral. The rise in credit card activities within in the financial services industry has been accompanied by increased regulatory oversight because these activities can pose a variety of substantial risks to banks, as will be discussed throughout this manual.

ABOUT THE MANUAL

This manual is intended to assist examiners in gaining a broad understanding of the unique characteristics of bank credit card operations. It highlights various facets of bank credit card operations and the examination approaches needed to analyze those operations and institutions. Bank credit card operations are subject to a dynamic competitive and legal environment. As such, examination approaches necessary to assess credit card operations may require augmentation or modification beyond the approaches provided in this manual, depending on circumstances that arise. Key factors to effectively assessing credit card operations are being adaptive in the face of change and being proactive in monitoring industry trends and movements.

This manual is to be used in conjunction with the Risk Management Manual of Examination Policies and, when applicable, the Risk Management Credit Card Securitization Manual. This manual identifies general information about credit card activities; discusses specific aspects of credit card lending operations, such as marketing, underwriting, and portfolio management; and identifies various CAMELS component considerations. Chapters about credit card issuing Rent-a-**Bank Identification Number (BIN)** activities, **merchant processing**, and third-party relationships are also incorporated. While many chapters include accounting discussions, examiners are encouraged to seek assistance from accounting subject matter experts as necessary. A glossary and appendices, including a sample pre-examination request list and merchant processing examination tools, are also included. The first use of each glossary term is underlined. The pre-examination request list is provided as an example only and should be customized for the specific bank under review.