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Predatory lending practices of the Turkish credit card sector

Effects on aggravating income inequality

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Abstract

In this paper, we attempt to show that the credit card issuers in Turkish banking sector perpetuates and extends the economic inequality in Turkey. In contrast with the proponents of the expansion of the consumer credit sector which see this enlargement as a venue to alleviate the lack of credit opportunities to underprivileged (a.k.a. "underserviced" in the banking jargon) in the society and democratize the access to credit, an uncontrolled credit card boom is causing the opposite effect and deepens the poverty of those who are unable to service their credit card debts and have to bear additional debt burden at exorbitant interest rates. This causes a vicious cycle where the cardholders are unable to honor their loans despite their effort and lead to mass defaults which will hurt the banks, cardholders as well as the entire economy unless necessary regulatory steps are implemented by the government.

JEL Classification: E440, E490

Keywords: Credit card, Turkey, predatory lending, income inequality

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1. Introduction

The goal of this paper is to showcase the evolution of the credit card sector in Turkey and how it contributes as an aggravating factor which further distorts the income distribution in the country. The paper is divided into four main sections. First, we outline the geometric expansion of the Turkish financial sector through market liberalization from 1990s onwards. Second, the emergence and rise of credit card sector since 1990s as a result of financial evolution in Turkey is discussed. Third, we observe the effects of the emergence of (almost) cashless society in Turkey and focus on the effects of 'taksit' credit cards in the retail sector. Fourth, the predatory lending practices of banks are discussed, where the focus will be on the practice of imposing unfair and abusive loan terms on low income to middle income borrowers. Fifth, a set of policy recommendations are suggested to remedy and re-structure Turkish credit card sector in order to help to fix the distortion in income inequality and reduce the increasing pressure from mounting debt burden by the consumers.

Credit cards have several core functions which brand them as a popular meta-payment method throughout the world for cardholders, retailers, card issuer and the state. For cardholders, it reduces the need to carry cash and enables the cardholder to avoid the risk of carrying cash due to theft or loss as the credit card could easily be replaced and provides protection for fraudulent use. Second, they allow consumer to spend at will and pay later without an interest charge until debt is at the end of the billing cycle, which give them a window of purchasing power, albeit temporarily, especially during periods when the consumer does not prefer to use or readily have the disposable cash to purchase goods and services. Third, they provide many perks such as collecting points, miles, cash-back options, and the ability to pay in installments with(out)

interest[1] (Güngör and Yıldırım). It also provides a convenient credit option, automatic cash withdrawals from ATMs as well as offering a venue for long term credit (Kelly and Reilly). Retailers, on the other hand, have the additional advantage of expanding their client base as more potential customers have the disposable spending power and credit without having to carry on the credit risk while the retailer have a payment guarantee from the card issuer (Ayers, Golter and Solt). In addition to the interest and fees from cardholders and retailers, card issuers also have the advantage of being able to trace the spending habits and sell such information to advertisers who would, in return, tailor marketing and promotional campaigns which focus on the consumer as the usage of credit cards in retail become universal, sometimes mandatory, in the evolving online retail world. It is also a preferred method for the governments since credit card usage leaves an electronic trail which prevents the growth of black market and off-record transactions, and facilitates the government to trace the transactions and levy taxes accordingly. Moreover, it empowers and expedites trade in the marketplace therefore has the auxiliary spillover advantage of higher tax revenue from retailers and issuers.

2. Expansion of the Turkish financial sector and credit card sector

Credit cards have entered Turkey in 1968 by the introduction of Diners Club. The initial credit cards in the Turkish market operated quite differently than the today's credit cards, and operated similar to a charge card. These cards required a blocked amount at the bank and the outstanding amount was due in full at the end of the cut-off date whereas the charges could not exceed the blocked amount. Given that the total number of users did not exceed 10,000 until mid-1970s and the cards were only accepted at limited number of venues, these cards signified a status symbol as few were able to afford to retain a blocked deposit for a credit card whose retail

[1] cf. http://www.bkm.com.tr/kartbilinci/ekonomifaydalar

coverage was limited to a few locations. As tourism industry developed further, American Express entered the Turkish market in 1975 with the entry of Visa and MasterCard in late 1980s. However, credit cards became only widespread after late 1990s and have positioned themselves as the currency of 21st century Turkey.

Until 1980 Turkish banking sector has been confined to a tight regulatory scheme and operated in interventionist government control on interest rates and issuance of consumer loans. The year 1980 is a milestone in the Turkish economy as the deregulation in the economy and financial sector had culminated to the boom in the consumer loan and credit card sector following the military coup d'état. The expansion of Turkish financial sector has been made possible by subsequent deregulatory and liberalization programs stretching from 1983 until 2001, marked by crises in 1982, 1994, 2001 and 2008. Riddled by high inflation, account deficit and limited credit sector, it was expected that the shock therapy, imposed by the sudden liberalization and opening in the economy, would instantaneously bring stability (Ulgen). Such painful remedies had been advocated by the IMF and World Bank as pre-conditions to extend credit lines via subsequent stand-by agreements to the Turkish economy and came at a heavy political cost as successive governments had repeatedly lost votes of confidence in the Turkish parliament and elections had to be prematurely called due to major economic crises coupled by domestic issues. Perceived lack of management of the economy by the public and investors have also eroded the popularity of political parties and forced the parties to form coalitions for government.

Turkish banking sector has been drastically restructured and consolidated following the 2001 economic crisis which emerged as a result of the exchange crisis due to the fixed exchange rate anchoring and growing account deficit. This reconsolidation in the banking sector has led to

various mergers and acquisitions by domestic and international banking corporations and resulted in far-reaching reductions in the number of banks operating in Turkey. In 1999, there were 81 operational banks in Turkey, of which 8 of those operating under the management of SDIF (Savings and Deposits Insurance Fund) – a government fund to guarantee the bank deposits. However, this number has reduced to 45 in 2009 (Uygur).

Since the 2001 crisis, credit cards continue to occupy a great deal of space in the Turkish media, with headlines reporting the suicide rates among the card holders skyrocketing as a result of credit card debt spiraling out of control due to compound interest charged by the banks. The number of credit cards in circulation has increased phenomenally fast, at an average rate of 13.4 per cent in the period from 2003 until 2010. Despite the relative healing in macroeconomic indicators, the interest rates charged on credit cards are excessively high; also in comparison to other consumer loans (see Table 6) which force many borrowers to default on their debt as the due interest quickly surpass the original amount.

Debt consolidation and reduction in the inflation from 95 per cent p.a. in 1995 to 9 per cent in 2011 has led to drastic changes in the banking sector. Until the inflation has been tamed in the 2nd half of 2000s, depositors used to make overnight deposits which had overnight interest rates, at the peak of the 2001 financial crisis, hovering as high as 6’200 per cent at the interbank market and 7’500 per cent on repo (Satiroglu). Such high interest rates not only encouraged people to capitalize on the economic collapse of the currency but also boosted the trend which eliminated the productive base of the economy as reaping the benefits of high interest rates had an exponentially better return than the meager profits which could be earned the production and retail sectors of the economy. As the inflation was brought under control, the road was opened for a boom in the consumer credit, and hence credit card sector. The growth in the credit card

sector has been nothing but spectacular, growing from 4.335 million TL in December 2002 to 53.75 in November 2011, a whopping 1'239 per cent increase in 9 years.

3. Emergence of a cashless society

The evolution of the credit cards in Turkey has been nothing short of extraordinary; however we must look into the underlying factors in order to understand what has led to this spectacular growth in consumer debt. By their very nature, the main role of the credit cards is to provide temporary credit for consumer purchases where the loan repayment is due at the end of the monthly credit cycle either in part or in full. In Turkey, the credit cycle is usually between 14-21 calendar days and the borrower could either opt to pay the outstanding amount in full without any interest charge on the cut-off date or partially pay the loan amount where the remainder of the debt would be subject to the APR as specified in the credit card contract.

Up to this point, there is nothing out of the ordinary. However, the credit card companies have a introduced an installment scheme, commonly known in Turkey as '*taksit sistemi*'[2] to boost credit card usage and increase the volume of credit cards in the economy. This system enables the consumer to split the repayments of the purchases made with the credit card as the customer could divide the outstanding balance in various installments without any penalties at the time of purchase. 'Taksit' has been quite popular among the consumers who do not readily possess the disposable income or does not want to make the full payment in their purchases. The consumer would, then, have the opportunity to spread the payments to several months instead of one-off payments. This system has also been coupled with the postponement option where the consumer could defer the payment of such installments up to three months without interest

[2] The word 'taksit' means 'installment' in Turkish

charge in addition to various benefit point-based schemes with cash-back options as well as other fringe benefits including airline miles and retailer discounts.

From its inception, this system was welcomed by the retailers as well the consumers. This is due to three main reasons. First, the retailer no longer has to bear the risk of the consumers' non-payment of its purchase. Until the wide spread use of the credit cards, the common medium for purchases made on credit was consumer bonds, called *senet*. To cover the risk exposure by the retailer, it was common that *senet*[3] had to be co-signed by another person who would be responsible to pay back the debt if the buyer does not pay back the original amount. Yet, in case of non-payment, the associated miscellaneous costs and lengthy legal due process put back many retailers to chase after their outstanding loans. Second, the credit cards provided an added security to the retailers with the assurance that the risk of non-payment is born by the financial institution which issued the credit cards. This has reduced the need for the use of *senet* and co-signers, which initially put off potential buyers as they were unable to find co-signers to underwrite their purchases, since the only counterparty in the current system is the bank. Third reason is the drastic volume increase in the credit card transactions, both in terms of revenue and number of transactions, which boosted the sales as the credit card companies and retailers cooperated in providing additional incentives by means of bonus points, cash-back options and airline miles to lure the customers.

While the number of credit cards had increased from 10'000 in 1975 to 20 million in 2003, reaching 51 million in 2011, the number of POS has also increased 198 per cent within 8 years

[3] 'Senet' is a consumer bonds which specifies payment conditions as well as the amount, co-signed by the seller and buyer. In many instances, the seller could require the buyer to provide a co-signer if the buyer does not have adequate credit history. In cases where buyer defaults on payment, the seller could collect the debt from the co-signer

from 2003 until 2011. This increase is due to the spectacular rise in the use of credit cards and growth in balance carried on the credit cards which rose by 494 per cent within the same period from 35.6 billion TL in 2003 to 214.2 billion TL in 2011.

Table 1 - Number of credit cards in circulation in Turkey

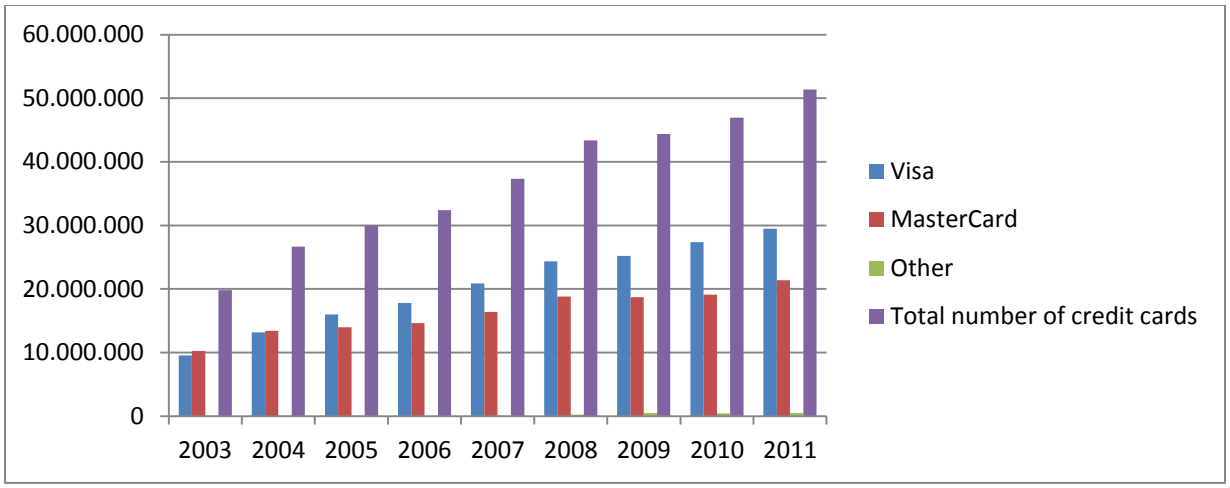


Table 2 - Number of ATM and POS in Turkey

Number of ATM and POS									
	2003	2004	2005	2006	2007	2008	2009	2010	2011
ATM	12,857	13,544	14,823	16,511	18,800	21,970	23,800	27,649	32,462
POS	662,429	912,118	1,140,957	1,282,658	1,453,877	1,632,639	1,738,728	1,823,530	1,976,843

Karayol argues that the emergence of 'taksit' credit cards are a result of a merge between retailers own charge cards with credit card capabilities due to high inflation, which would enable the cardholder to enjoy certain perks in addition to paying the debt in installments (Karayol). Initially began as a small scale scheme with few retailers in 1999, 'taksit' has now almost universal acceptance in Turkish retail and service sector where consumers buy almost anything with the 'taksit' option of their credit cards. While many credit card companies offer additional perks in addition to their existing 'taksit' options, there are substantial differences between each card. For instance, while "Bonus Card" is the most popular credit card in Turkey, it does not

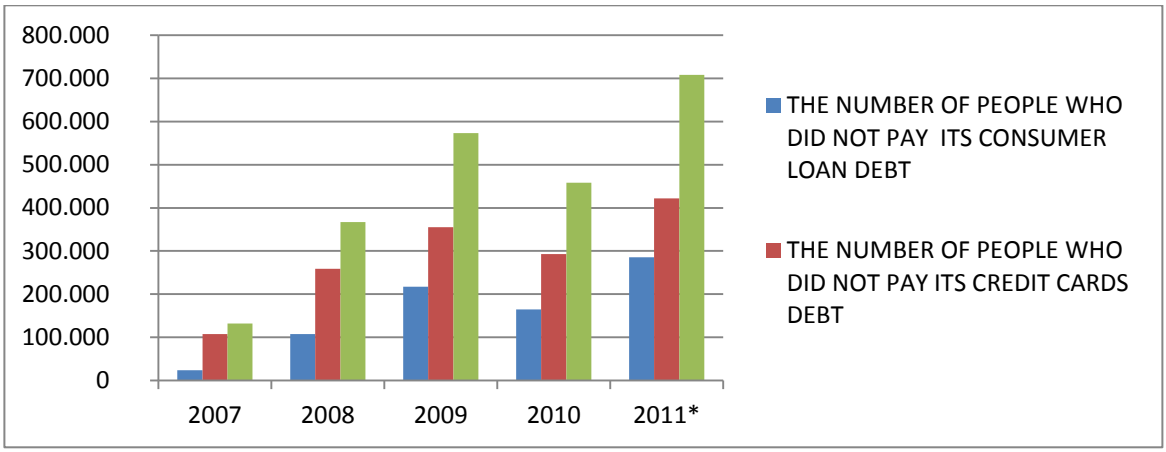
have as many retailer options where the consumer could collect cash rewards. Similarly, "Axess Wings" from Akbank could provide additional miles and free airline rewards, it does not have the same acceptance as the other credit cards. As of January 2012, there are 87 different types of credit cards in circulation offered by financial institutions, all with varying degrees of perks and benefits. The variety of promotions has encouraged many consumers to apply for multiple cards in order to enjoy perks offered by the banks. Thus, 46 per cent of cardholders have more than one credit card and 21 per cent have more than three or more credit cards in 2011. (BKM Kart Monitör Araştırması)

While a comparative analysis of each one of these credit cards is beyond the scope of this paper, it is imperative to note that the Turkish economy is assuredly becoming a cashless society with an ever-increasing burden of private consumer debt problem. This is due to the fact that increase in credit card debt is not matched by an increase in income, which leads to a culmination of debt burden of the consumers. An additional alarming factor is the fact that there is an increasing gap between monthly overnight interest rates and credit card interest rates, which hovers far above the former[4] (A. F. Aysan). Table 3 exemplifies the dire straits awaiting the Turkish economy where the number of consumer in default due to credit card debt has increased 2'700%, rising up from 16'357 to almost half million people in the first 10 month of 2008. If the current trend continues, a Minsky moment would inevitably arrive where the financial institutions will realize that the loans extended to the consumer could neither be served nor maintained once the credit card defaults start occurring precipitously, which could eventually

[4] The interest on credit cards consistently rank far higher than the regular interest rates charged at monthly overnight deposits. Aysan points out that the monthly overnight interest rates were at 3.7% in Q4 in 2002 while the interest rates for credit cards were 8% for the same period. See Table 6 for further details

lead to a situation similar to 2008 financial crisis in the U.S. with a paralyzation of the credit sector.

Table 3 - Number of non-performing consumer loans and credit cards



Source: General Directorate of Banking and Financial Institutions

* There has been a difference between 2011 yearly basis total and monthly basis total since a person could have more than one negative records in different months.

** As notifications are based on the number of people, a person can have only one record in a year.

*** As notifications are based on the number of people, a person can have only one record in all years.

4. Predatory lending practices

Credit cards around the world are unique meta-payment methods and the banks offer a relatively homogenous product where the core function is to provide credit for an agreed period of time. As we have discussed, regulatory framework in Turkey historically lagged behind the evolution and market penetration of credit cards into the economy. Despite their sheer number has remained fairly stagnant until late 1990s, number of credit cards and POS has been growing exponentially since the turn of the 21st century, passing 51 million mark in 2011 for an adult population of 55 million above the age of 18 according to 2011 census[5].

[5] Turkish Statistical Instituite, http://www.tuik.gov.tr/PreTablo.do?tb_id=39&ust_id=11

As a result of result of this sudden growth in credit card ownership, the consumer credit burden has drastically increased in the overall population. As the credit companies scramble to increase the transaction volume and fees in the sector, they have become more lenient towards borrowers which have bad credit histories. Such increase in credit card possession can be attributed to two main reasons. First is the lax policy of the financial institutions to issue credit cards to consumers without proper background and financial credit history checks. The increasing number of 'low-doc' and 'no-doc' customers in the banks' portfolios has exposed these financial institutions to a higher risk of non-payments. This potential adverse effect has provided the banks with a plausible alibi to maintain higher interest rates. Ironically, this vicious cycle is sustained by the banks because the plausibility of imposing high interest rates could not be continued unless the banks accommodate such risky customers in their client profiles. Yet, as we shall discuss, the lower income section of the credit card clients offer the most profitable slice. Thus, it is not surprising to see that the number of credit card-related defaults is increasing while revenues of the credit card companies are growing (See Table 1)

Undoubtedly, a dilemma shows itself here—that it is in the interest of the credit card companies to encourage their clients to spend beyond their means and push them into further debt to a point in which they have to bear more interest rates to be able to service their debts. While perks, such as temporary payment deferral and limited-time low APRs, lure the consumers in the short-run, it gives them an incorrect illusion over the nature of their debt and a false sense of financial affluence. Yet, the banks have a genuine financial interest in expanding their credit card business. For instance, while the regular banking operations have a return of 20 per cent per annum, the credit card businesses have amassed 60 per cent to 100 per cent profits (Ausubel). Credit card revenues, as well as the transaction volume, continue to grow as they are further

integrated and coupled with additional incentive programs such as bonus points, miles, cash-back options, and most importantly as the option to split their payments in installments by '*taksit'*. According to a poll conducted by Interbank Card Center in Istanbul, 52 per cent of credit card users identified the 'taksit' option as the most important factor to use their credit cards for shopping and payment transactions while collecting bonus points came in second (BKM Kart Monitör Araştırması).

The consumers can be divided into two groups according to their use of credit cards (Chakravorti). The convenience users pay the credit card on the due date without incurring any penalty charges or bear any interest payments, while the revolver users utilize the credit option embedded in the card with the associated interest rate charge. This rise could also be attributed to the fact that the customers perceive their credit cards as a guarantee which they can fall back on which could cover their deficit in spending capability, should they become unemployed.[6] As the usage of credit cards as well as their sheer number continues to rise, the number of credit-card related defaults has also risen. In the Turkish credit card market, 76 per cent of the cardholders pay their bill on due date (A. F. Aysan)[7]. 24 per cent of the remaining revolver users are the client base which acts a cash-cow for the banks since they accrue interest charges in addition to their outstanding credit card balance. The accumulation of additional interest charges deepen the debt burden as the interest rates increase for the unpaid balance and forces the cardholder to bear more debt.

[6] This phenomenon has lead several credit card companies (Bonus, Card Finans) to provide unemployment insurance to card holders, which gave them the possibility of temporary debt relief if they become involuntarily become unemployed.

[7] http://www.bkm.com.tr/images/basinodasi/06082005_dunya.jpg

Table 4 - Outstanding credit card balances issued in Turkey

Balance on Turkish credit cards used in Turkey and abroad (Mil. TL)									
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Retail	35,672	58,509	77,418	98,779	128,018	165,897	183,372	214,195	267,372
Cash advance	3,743	6,118	7,864	9,624	1,345	19,096	1,947	20,061	26,447
Total	**39,415**	**64,627**	**85,281**	**108,403**	**141,468**	**184,993**	**202,842**	**234,256**	**293,819**

Table 4 shows that the outstanding balances continued to grow since 2003 with a spectacular increase of 168 per cent, rising from 39,415 million TL in 2003 to 293,819 million TL in 2011 within a time span of eight years with an average increase of 30 per cent per annum. The burden of servicing credit card takes a heavier toll on those who are able to catch up on their payment and have to resort to alternative methods in order to avoid potential bankruptcies imposed by the credit card companies. The lack of available credit from financial institutions which the customers use to service and consolidate their debt at a reasonable rate has enabled the proliferation of underground usury and loan shark sector in Turkey. There are no available published statistics on interest rates by the loan sharks; however the street rate for such transactions is 2.5 per cent per month according to our inquiries in the Şehremini district of Istanbul in January 2012. The usury is facilitated by the wide network of POS which are also used of payment points for the credit card debt. Ironically, despite the apparent illegal nature of the activity, the rates charged by the usurers are often less than the amount charged by the credit card companies, where the rates by the banks hover around 5 per cent per month, which facilitate the growth of usurers.

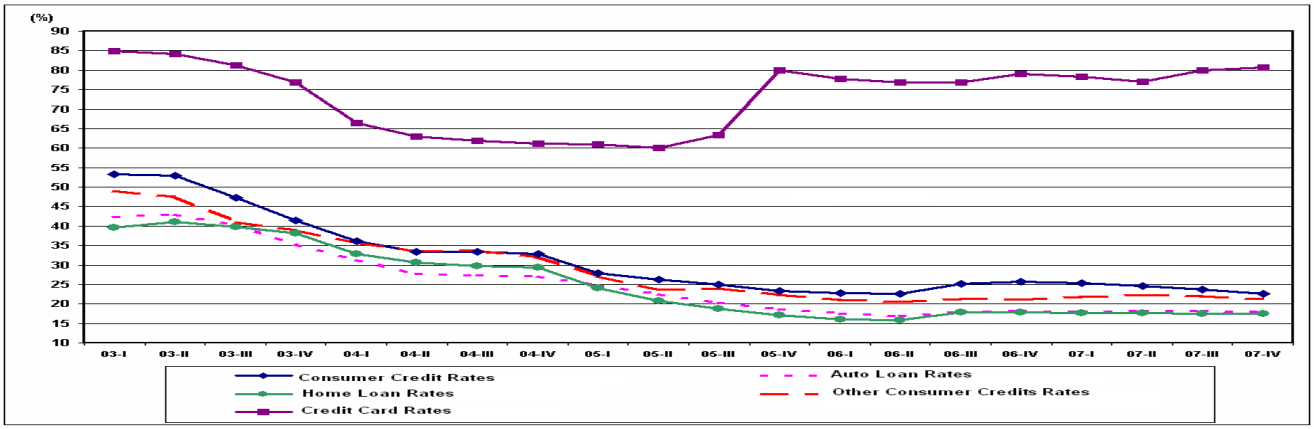
The use of POS machines in this usury practice is fairly straightforward process. Let us take a credit card user with an average monthly interest rate of 5 per cent and a debt of TL 5’000. This would roughly translate into a 60 per cent APR. Assuming that the debt would be compounded to TL 8’000 in a year, the cardholder goes to a usurer with a POS to pay down the

outstanding debt. The usurer charges the credit card with 'taksit' option, splitting the payments to 2 months up to 36 months as if the cardholder has purchased service or a product. The usurer keeps 10 per cent to 15 per cent as a retainer and gives the remainder as a cash payment to the cardholder. [8]

Table 5 - POS Transactions

POS Transactions								
	2003	2004	2005	2006	2007	2008	2009	2010
Number of Transactions	12,428,033	19,928,312	33,749,487	49,950,687	73,754,648	106,702,274	153,744,133	219,972,510
Transaction Amount (Mil. TL)	230	449	897	1,510	2,335	2,435	4,917	7,777

Table 6 - Credit card interest rates vs. other consumer credits, 2003-2007[9]



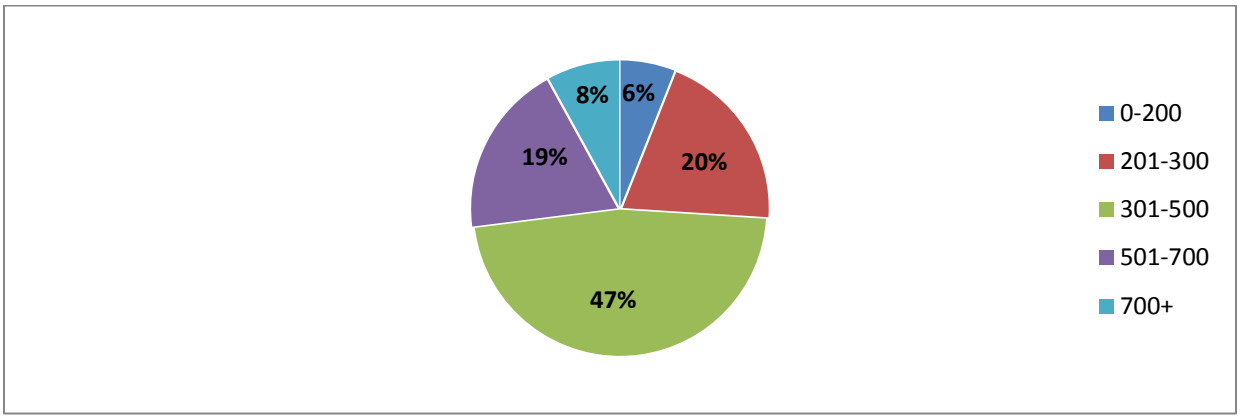
BRSA President, Tevfik Bilgin, aptly put the dilemma of resorting to credit cards by the less-affluent and noted the "credit cards are perceived as the way of the continuation of lives not a venue of facilitating daily lives."[10] The Consumers Union's main current concern is the recent interest increase by the Central Bank to 10.5 per cent per January 2012. Such a drastic increase has a substantially worsening effect on those who could barely maintain the minimum monthly payments. Legal Counsel of the Turkish Consumers' Union Bülent Deniz has protested that the

[8] http://www.sabah.com.tr/Ekonomi/2011/04/27/kart-tefeciligi-engellenemiyor
[9] Obtained from Turkish Statistical Institute
[10] Taken from a report in Sabah newspaper, 20.02.2006

compound interest rate on credit card would amount to 40 per cent p.a. and this would be nothing short of discriminatory considering the fact that the annual consumer loan interest rates are 12 per cent p.a. (Milliyet Ekonomi). The destructive effect is more visible when we contrast the interest rates charged on credit cards to the annual inflation rate which is 10.61 per cent p.a. per January 2012. This means that the interest rates charged by the credit card companies are 4 times great than the annual rate of inflation.

When we observe the income levels of the credit card users, the plausibility of Turkish Consumers' Union claim is further validated—that the credit card companies are increasingly targeting the lower income customers to increase their revenues and transactional volume. Table 7 shows the average monthly income of credit card users in Turkey. According to MasterIndex poll conducted by MasterCard, credit card users spend TRL 1'000 on average.[11] 65 per cent of users spend TRL 1'000, 21 per cent between TRL 1'000-1'500, 6 per cent between TRL 1'501-2000 and 8 per cent above TRL 2'001 (Baydemir).

Table 7 - Average monthly income of credit card users in Turkey (in TL) (Çavuş)



An overwhelming majority of the credit card users spend well beyond their income, which compels them to carry mounting outstanding balances charged at rising interest rates. This

[11] http://www.bkm.com.tr/yayinlar.aspx

spending disproportionate to incomes is a major factor in individual bankruptcies and increasing credit card-related suicides, which has cost more than 200 lives since 2005 (Son sayfa). As a consequence of this practice, predatory lending practice emerges as a major contributing factor to the distortion of income distribution in Turkey as the card users are locked into a vicious cycle of permanent debt servicing. According to the figures published by the Confederation of Turkish Trade Unions, it is estimated the poverty line for a household of 4 people, comprising of 2 adults and 2 children, to be TL 3'123 per month (Türk-İş). It is nonetheless not surprising to see that the credit cards are widely used as a tool for sustenance in daily life more so than being utilized as a facilitator to conduct occasional household and leisure expenditures. Despite the new banking directives regulating the credit cards in 2003, 2006 and 2009 which prohibit the use of compound interest rates on credit card debt by the financial institutions, the banks continue to ignore this legal clause and apply compound interest rates on outstanding credit card debt due to lack of legal enforcement.

There are also effects of such predatory practices of credit card debts in addition to the financial distress which distresses the social fabric of society. Since 2000, 7 out of every 10 couple had a divorce due to emotional and financial distress caused by exorbitant credit card debt (Komsu.net). While it is outside the scope of this paper to analyze the sociological effects, we can confidently say that such debt have an increasingly adverse effects on the Turkish society and the situation could continue to worsen unless proper legal and legislative regulations are put in place to curb this phenomenon. This would not only ensure the long term prospect of maintaining the client base for the banks, but, from a societal point of view, would also affirm the utilitarian value of credit cards for the people and reduce the social stigma attached to the

banks as a result of their predatory practices. Let us now look into the policy recommendation which could help in succeeding this goal.

5. Policy recommendations

a. Regulating the marketing activities of credit card companies

One can scarcely go to a shopping mall or pass through a busy street in Turkey without bumping into the promotion stands of the banks, marketing credit cards to the people on the street. Although obtaining credit cards should ideally require pertinent documentation process as well credit history checks, such checks are often ignored, albeit willingly, by the issuer banks in Turkey. Nonetheless, their 'open-arms' policy to the potential consumers is not based on philanthropy to democratize the use of credit cards, but focuses on ensuring the growth of the customer base, regardless of costs to the customers or whether the default rates on cards are increasing on a monthly basis. As the banks continue to generate more revenue from 'revolver' and 'default' customers due to their exorbitant interest rates and penalties, it is imperative that their predatory marketing activities focusing on low-income groups should be curbed. The marketing activities should be restrained to select number of venues and bank branches where the potential customers could obtain product information and apply for credit cards. The problem is not only solved by limiting the venues where credit cards are handed out to the people. The incentive structure of credit card companies should under scrutiny. The marketers of credit cards, which work in the same department as the issuing department, have an additional incentive to expedite the process and approval of credit cards without proper documentation as they collect a commission between TL 15-20 for each issued credit card. As a solution, the commissions should be overhauled, and if possible, eliminated to avoid the conflict of interest on the banks' side.

Second, the commercials and product disclaimers should provide clear and accurate information on the annual per centage rates of interests and associated fees and penalties for credit cards. Often, credit card advertisements in Turkish media are filled with content which mention very little of product-relevant information. Their advertisement content is often diluted with humor, which parodies talking animals (i.e. BonusCard by Garanti Bank), dancing babies, use of ethnic comedy such as accentuating various Turkish dialects and foreign languages and the popularity of the successful commercials often exceed the brand recognition and reputation of credit card. Local and international celebrity appearances (i.e. Shop&Miles by Garanti Bank) are also quite common as well as skits which associate the card as a class and status symbol (i.e. Axess and American Express by Akbank). Despite analyzing content material of credit cards' individual marketing campaigns is outside the scope of this paper, it must be noted that credit card commercials and advertisements fall clearly short of providing pertinent information about the nature of their products, such as interest rates, financing options and annual rates, yet follow a 'smokes-and-mirrors' marketing strategy, diluting the spots. Nonetheless, it is imperative that such marketing activities in print, visual and Internet media should clearly provide necessary disclaimers to inform the customers about the associated interest rates. This requires an extra effort as the credit card holders are fairly indifferent to changes in interest rates arising from competition between the banks due to investigation and switching costs to different cards (Bertaut and Haliassos).

Third, such regulation should indeed not only be limited to the marketing activities, but encompass the nature of credit card contracts whose contractual language befuddles many consumers due to its complicated use of legal language. The contracts ought to be written in plain and precise language which would enable the consumers to understand the fine-print of

credit card contracts and associated contractual obligations which they are undertaking. This would not only empower the consumers with better knowledge, but would also ensure the long-term health of the credit card companies by guaranteeing the sustainability of the customer base as they are equipped with the information on how credit cards would have impact their household finances and credit histories in the short to long run.

b. Strict regulation on usury and predatory lending practices

Despite that the use of credit cards have increased by 275 per cent in 1998-2004 alone, there has been enactment on legal regulation on the credit card interest rates until 2003 (A. F. Aysan). Although the rate of inflation has decreased substantially from the hovering heights of 90 per cent p.a. in 2001, the inflation has been capped at 10.5 per cent as of December 2011.[12] The situation continues to worsen and legislative efforts by the Parliament fail to complement the legal efforts by the judiciary so far despite the efforts to contain the rising number of defaults due to predatory lending practices. The outstanding amount of credit cards in default has increased from TL 1.3 billion in December 2005 to TL 3.8 billion in September 2011[13], while the debt burden is increasing by 58 million TL per month.[14] While the rate of usury is increasing steadily, the Central Bank is contempt with the increase in the usage of credit card debt as this signifies a decrease in the rate of off-the-record transactions and weakening informal economy (Central Bank of Turkey).

The interest rates on credit cards are rather high in comparison to other consumer credits. Despite the adverse effects of high interest rates, the credit card usage has been further bolstered by cut-throat competition, extension in 'taksit' periods, boost in promotions and marketing

[12] http://www.hazine.org.tr/ekonomi/enflasyon.php
[13] http://www.kredikartimagdurlari.com/kredi-kartinda-batak-en-fazla-olan-iller.html
[14] Sum of private and corporate cards, BRSA and CBRT

campaigns. Despite the recent regulation by the Turkish Central Bank, continuing default rates indicate that measures have fallen short of providing adequate remedy to alleviate the problem of high interest rates. Moreover, as we can see in Table 8, the banks do not appear to competing on providing lower APR to their customers, which could lessen the number of defaults, as their interest rates are in a fixed bandwidth. On the contrary, their competition center on extending their promotions and increase in their advertisements and marketing activities.

Table 8 - Average APR of credit cards

Maximum interest rates on credit card imposed by select Turkish banks (Valid for credit credit card denominated in Turkish Liras)			
Name	**Valid as of**	**Max. monthly interest rate % (incl. cash-advance)**	**Max. monthly interest rate for late payment**
AKBANK T.A.Ş.	1/1/2012	2.34	2.84
ANADOLUBANK A.Ş.	2/1/2012	2.34	2.84
CITIBANK A.Ş.	1/26/2012	2.34	2.84
DENİZBANK A.Ş.	1/27/2012	2.34	2.84
EUROBANK TEKFEN A.Ş.	4/1/2011	2.12	2.62
FİNANSBANK A.Ş.	1/25/2012	2.34	2.84
HSBC BANK A.Ş	1/28/2012	2.34	2.84
ING BANK	1/1/2012	2.34	2.84
FİBABANKA A.Ş.	1/1/2012	2.34	2.84
ŞEKERBANK T.A.Ş.	1/30/2012	2.34	2.84
T.C.ZİRAAT BANKASI A.Ş.	2/1/2012	2.34	2.84
T.GARANTİ BANKASI A.Ş.	1/1/2012	2.34	2.84
T.HALK BANKASI A.Ş.	1/1/2012	2.34	2.84
T.İŞ BANKASI A.Ş.	2/1/2012	2.34	2.84
T.VAKIFLAR BANKASI T.A.O.	1/25/2012	2.34	2.84
TEKSTİL BANKASI A.Ş.	1/28/2012	2.34	2.84
TÜRK EKONOMİ BANKASI A.Ş	1/26/2012	2.34	2.84
YAPI VE KREDİ BANKASI A.Ş.	2/1/2012	2.34	2.84
TURKISH BANK A.Ş.	1/1/2012	2.34	2.84

Source: Central Bank of Turkey

Table 8 shows that credit card interest rates by the banks mainly converge although the banks are in fierce competition for offering better rates in other forms of consumer loans. This also brings the question of whether the banks credit policy follow a discriminatory plan against credit card owners given the widening gap on interest rates and other consumer loans. It is argued that the banks resist any substantial reductions in their interest rates would encourage high-risk customers and this would further increase a push factor on the interest rates. (Karahan) Therefore, they focus their competing on other factors outside the interest rates to lure and maintain customers, such as providing additional installment options, cash-back, insurance, frequent flyer miles and bonus points.

c. Capping credit limits and preventing unauthorized card issuance

In the current setting, the banks could unilaterally increase the spending limits without the prior consent of their customers, while continuing to further decrease minimum monthly payments which further increase the interest-bearing credit amount. This practice has hurt the customers whose credit card expenditures disproportionately exceed their incomes, tumble into further debt with increasing interest and debt and eventually have to declare bankruptcies. Generally, the credit limit imposed on credit card is often artificial and many banks charge an additional 'excess limit fee' when the cardholder cross the credit limit without knowing. They continue to charge their credit cards with the expectation that (s)he would be notified by their credit card company or notified by the retailer that the credit card is declined due to insufficient funds available on the credit card. As we can see in Table 3, the number of people who defaulted on their credit card debt has toppled in 400'000, and given the current trend continues, we could reasonably expect this amount to reach 1'000'000 by the end of this decade. It is also a common practice that the credit limits are more frequently increased of those cardholders who fall behind

their payments and pay down their debt partially rather than those who pay their credit card debt in full.

Secondly, the banks issue cards to individuals without their consent and even if such cards are not used, the banks still charge their clients for the annual card fees. The customers have also filed over 10’000 complaints in 2010 alone to complain about the excessive bureaucratic hurdles at the banks card center when they would like to cancel or revoke their cards. This has prompted legislative enactment by the Turkish parliament against unauthorized issuance of credit cards by the financial institutions and capped the credit card limit not to exceed twofold of monthly salary of the cardholder (Petition Commission of Turkish Grand National Assembly, Ruling Nr. 25/2010).

6. Conclusion

As the credit cards, and explosion of private consumer debt grows, people enter into a perpetual debt which they are unable to escape as they interest is compounded by exorbitant, almost usurious, interest rates. It is important to note that consumers do not enter into these debt obligations unwillingly and often are not oblivious to the potential repercussions if they are unable to service their debt and default. Continuous crises, especially the latest in 2001, wiped out the savings of many people, where the ones who were most affected are lower and middle-income families. While the cardholders are liable for the purchases they make on their credit cards, it is not in the general macroeconomic interest of the society to allow financial institutions to self-regulate themselves in setting the credit limits and apply predatory interest rates on the cardholders. This is not only in the interest of the cardholders but also the financial institutions as this would preserve the long-term macroeconomic stability by safeguarding the payment ability

of the cardholders. It is, therefore, essential to prevent the further distortion of income inequality in the economy by taking the necessary safeguards which protect the consumers' long-term health and ensuring sustainable access to the credit market. In this regard, the government has an indispensable proactive role to play to protect the overall financial safety and avoid any potential hazards driven by excessive lending of the banks which could have a harmful snowball effect in the end.

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