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Credit-Card Companies Target New Niche: the Mentally Disabled

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An estimated 887,000 mentally disabled adults live on their own in the U.S., and they struggle to develop skills that most people take for granted -- holding down a job, navigating public transportation and counting change from a purchase.

Increasingly, however, the retarded confront the need for certain skills that are a challenge for many mentally competent people: the self-restraint and tactical rudeness required to fend off the barrage of telemarketing, junk mail and television come-ons offering easy access to credit cards. As the credit-card industry, hungry for growth, pushes deeper into lower-income groups for new customers, there is an inevitable collision between the sharp-elbowed world of modern consumer credit and some of society's most trusting and vulnerable citizens.

No one argues that mentally retarded people should be prohibited from receiving credit cards, and in fact many can handle credit, although often it takes supervision from family or friends. But the saturation marketing of credit cards coincides with a mental-health movement that has resulted in increasing numbers of mentally retarded adults living more independently.

One of the unintended consequences of the confluence of those two forces: Growing numbers of retarded people, who tend to be both poor and poor at managing money, are landing plastic and getting into debt problems that can rock an independent life carefully constructed with the help of family and social workers. The situation presents dilemmas for card issuers, too: Discriminating against mentally disabled people in lending is illegal in some states, and some issuers say it's unfair to treat mentally retarded people any different from other consumers when they get in over their heads.

Scott Swan's parents were shocked to discover earlier this year that their 38-year-old son, mentally disabled since a car accident at age three caused brain damage, had run up a total of \$17,000 in balances on Citibank Visa, Discover and Sears cards. Mr. Swan takes home \$700 a month as a janitor at a Des Moines, Iowa, grocery store, and had no chance of keeping up with the minimum combined monthly payments of \$315 on his credit cards.

"I was just sick at heart," says his mother, Marjorie Swan. "I wondered, 'How are we ever going to get him out of this?' "

Maxing Out

Mr. Swan, who has lived in his own one-bedroom apartment for nine years, watches a lot of television, and beginning about four years ago, he began getting cards by dialing toll-free numbers offering plastic. He became an avid buyer of merchandise advertised on television and through telemarketers. The card issuers routinely bumped up his credit limits, as he paid a little more than the monthly minimum, until he was swamped by bills.

The pattern is typical of the mentally disabled adults who in increasing numbers are having debt problems, say social workers and others who work with the retarded. No national figures are kept on the problem. But, says Mark Albrecht, a counselor with Arizona's Division of Developmental Disabilities in Tuscon: "We've had lots of people get into big messes."

Often lonely and trusting, the mentally disabled tend to believe that every telemarketing call is a sincere act of friendship, experts say. They frequently agree to buy out of deference to perceived authority, or to hide a lack of comprehension. Says Mary Hayden, research director at the Institute on Community Integration at the University of Minnesota: "They tend to say yes."

Norman and Edith Braley of Bangor, Maine, filled out a credit-card application four years ago at a Sears store "to get a free prize" says Mr. Braley, 56. He and his wife, who is 66, are both mentally disabled and were confined to institutions from childhood through middle age. "If you spend five minutes with them, you know something is wrong," says Bonnie-Jean Brooks, head of a social-service agency that helps the Braleys. They live on \$900 a month from disability payments and Mr. Braley's lawn-mowing jobs.

Dialing for Dollars

A few months after getting the Sears card, Mr. Braley called a toll-free number in response to a TV ad and landed a MasterCard from Fleet Bank of Boston. Suddenly, the Braleys felt they could spend like normal consumers. They bought watches, a lawnmower, a pool cue. The priciest item: a \$320 gold ring. "I bought that for my wife, Edie," Mr. Braley says.

The Braleys soon owed \$2,500 and had no way of paying. Sears stopped trying to collect its \$1645.10 and won't comment on the account. A spokeswoman says, however, that Sears has forgiven the debts of some mentally disabled borrowers. Fleet assigned its \$939.16 account to Coldata Inc., a New York collection agency. It gave up earlier this year, and Fleet forgave the debt after The Wall Street Journal inquired about the Braleys.

Of course, some mentally disabled people handle credit well. Much depends on the degree and nature of the disability. Lisa McCaslin, 36, a mildly retarded woman living in Prescott, Ariz., keeps the balances low and the payments current on her Visa card and several store charge cards. But Ms. McCaslin lives with her mother, who watches her spending and bills closely. "I would be very hesitant to let her have cards on her own," says her mother, Jean McGuire.

In an earlier era of banking, getting a loan typically required a face-to-face meeting. That had a certain moderating effect. Mr. Swan of Des Moines, for instance, plainly appears to be mentally disabled, speaks in a droning monotone, reads at fourth-grade level and has a hard time with numbers. Together with his low income, a lender meeting Mr. Swan probably would conclude that he wasn't a good credit risk -- and might well question whether a loan would be good for the customer.

"Responsibility is a two-way street," says Kathleen Keest, an assistant attorney general in Iowa who specializes in consumer lending issues. Ms. Keest asserts that the nation's raucous free market in

consumer lending has lost sight of "the distinction between productive credit and destructive debt."

Face-to-face lending, of course, is an outdated concept. Consumer lending these days is a vast by-the-numbers marketing machine. Three billion mail solicitations are sent out by credit-card companies each year, along with countless telemarketing calls and television ads.

The industry doesn't have any broadly accepted guidelines for dealing with the mentally disabled. Special policies, lenders say, could smack of discrimination. As a practical matter, it would be virtually impossible to gauge where to draw the line because of the wide variations in the level of mental disabilities: Is someone with an IQ of 90 credit-worthy, but someone with an IQ of 85 not?

Beyond that, Connecticut, Illinois and several other states include the mentally disabled in laws barring discrimination in lending. But the federal Equal Credit Opportunity Act doesn't cover the mentally disabled. Advocates for the handicapped say they're not aware of lawsuits applying the federal Americans With Disabilities Act to credit issues.

Policy Limits

"Even with a with a well-intentioned policy, we could do more damage than good by limiting access to credit for people who may have mental disabilities but need credit to live a normal life," says Pam Lloyd, director of credit-card marketing at Citibank, a unit of Citigroup.

Nor is there any accepted industry theory on how issuers should deal with people they learn are mentally retarded after the borrowers get in trouble. Kathleen Berntsen, St. Paul, Minn., describes her condition as "slow learning." She says she has trouble with math, "especially dollars and cents."

After receiving pre-approved offers from Discover and Citibank about five years ago, she went on a credit-card buying binge that left her \$4,000 in debt within months. A roommate at the time added to Ms. Berntsen's debts by charging purchases around town. Ms. Berntsen didn't have much income, but she owned a small bungalow, inherited from her parents. She refinanced her debts through a series of "bill-consolidation" loans that grew into a \$54,000 mortgage on the home.

She fell behind on the \$600 monthly payments. Collection efforts ensued, and Ms. Berntsen, confused, worried that she would be "going to jail."

The lender, TCF Financial Corp., a Minneapolis savings-and-loan, sued to foreclose. Without the house, Ms. Berntsen says, "I'd be lost." TCF says it dealt with Ms. Bernsten as it would any borrower. "They can't say we want people treated with respect except when they overextend themselves on credit," says Peter Bell, a TCF spokesman.

Ms. Berntsen kept her house after a pro bono lawyer intervened. Other terms of the settlement are confidential.

Robert Spinney of Newton, Iowa, makes ends meet on about \$7,700 a year in disability payments and wages from a part-time job mopping floors at a fast-food restaurant, Taco John's. He lives on his own, and received a call from a telephone solicitor for Chevy Chase Bank of Maryland in February 1996 offering a Visa card. The telemarketer correctly noted Mr. Spinney's place of employment on the form and recorded his income -- as \$70,000.

"Robbie doesn't know the difference between \$7,000 and \$70,000," says his father, Lawrence Spinney, who thinks Chevy Chase should have known the difference between \$70,000 and a job at Taco John's.

The younger Mr. Spinney soon owed a combined \$4,000 to Chevy Chase and Discover, which also gave him a card. He doesn't understand revolving credit or the concept of interest. "I get a little confused," he says. Ms. Keest, the Iowa Department of Justice official, contacted Discover, a unit of Morgan Stanley Dean Witter & Co., and it forgave Mr. Spinney's \$2,400 balance. Chevy Chase has assigned his \$1,600 debt to a collection agency. Chevy Chase won't comment.

Many of the mentally disabled have overcome many obstacles to live independently, but find easy credit hard to deal with. Scott Swan, the Des Moines man, was left unable to walk or talk by the car accident. His father taught him to walk again, holding him up by the bib of his overalls as he crossed the living room floor. And by age five, he could speak well enough to be understood.

A Flying Tackle

Mr. Swan's parents hammered home themes of responsibility. "He's always early," says Kurt Harris, store manager at Dahl's grocery, where Mr. Swan sweeps up. On his way home from work one day two years ago, Mr. Swan, a hulking figure at 6-foot-1, 240 pounds, tackled a thief fleeing from a nearby picture-framing store. Mr. Swan got a police commendation.

Mr. Swan thought he knew how to handle money. He writes checks for his \$308 rent and his utility bills, recording the payments in a shaky, oversized scrawl that overlaps the lines of his check register.

With credit cards, however, Mr. Swan's sense of responsibility was his undoing. Each card triggered a stream of calls from telemarketers offering that most prudent of products: insurance. In August 1994, a caller sold him credit-card protection insurance. A September call brought dental insurance. In December came another credit-card protection plan.

"We all buy insurance hoping not to use it," says Mr. Swan, echoing his father, a retired police captain, on the subject. "But we're glad it's there."

Over the next four years, Mr. Swan bought renter's insurance, legal insurance, life insurance and roadside-assistance plans (even though he doesn't have a driver's license). He bought eight separate so-called "credit-card registration" plans, which offer for a fee to notify credit-card issuers of lost or stolen cards, something cardholders can do for themselves.

Sears agreed to settle Mr. Swan's account earlier this month on terms proposed by Ms. Keest, the Iowa assistant attorney general. The company forgave his \$2,036 balance and agreed to refund more than \$860. Mr. Swan still had to pay for "legitimate goods and services" he charged to the Sears card, such as a flashlight, a toaster and work shoes. Sears agreed to absorb \$1,987 in charges for low-value telemarketed add-on services -- the proliferating insurance, for instance. The settlement came six months after Ms. Keest informed Sears of Mr. Swan's condition and followed inquiries by The Wall Street Journal. Citibank, another of Mr. Swan's card issuers, hasn't offered to settle. It declined to comment on Mr. Swan's case.

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