cfpb Consumer Financial Protection Bureau

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CONSUMER FINANCIAL PROTECTION BUREAU FINDS CARD ACT REDUCED PENALTY FEES AND MADE CREDIT CARD COSTS CLEARER

The Consumer Financial Protection Bureau (CFPB) today released a report detailing how the Credit Card Accountability Responsibility and Disclosure Act of 2009 (CARD Act) reduced penalty fees and made the cost of credit cards clearer to consumers. The report found that total cost of credit declined by two percentage points between 2008 and 2012 but that there are still areas of concern in the credit card market.

Credit Card Market by the Numbers

- **71 percent:** Approximate percentage of the population that has at least one credit card
- **$2 trillion:** Amount of unused credit currently available in the market
- **$2.5 billion:** Estimated amount of overlimit fees that would have been paid in 2012 without the CARD Act had the incidence of overlimit fees remained at 2007 levels
- **$1.5 billion:** Approximate reduction in late fees paid by consumers in 2012 after the CARD Act went into effect
- **$6:** Amount the average late fee decreased by after the CARD Act took effect

Overview

The CARD Act was signed into law in May 2009 with the intent of establishing fair and transparent practices in the credit card market. Over seventy percent of adults have at least one credit card. The CARD Act made sweeping changes to protect them, including by preventing unexpected interest rate hikes, curbing unfair or excessive late fees, and creating an opt-in requirement for overlimit fees. The CARD Act also instituted new disclosure requirements designed to make credit card costs clearer for consumers. The CFPB assumed authority for the CARD Act in July 2011.

The CARD Act directs the CFPB to review the impact of the law on the cost and availability of credit as well as the level of consumer protections in the credit card market. A major takeaway from the report is that consumers can better understand the credit card market. They can comparison shop more easily because pricing is more predictable and transparent.

Report Findings

The CFPB used data covering most of the credit card marketplace to prepare the report. Based on this data, the report found that:

- **Total cost of credit declined:** The CFPB found that the total cost of credit declined by two percentage points between 2008 and 2012. The total cost of credit includes all fees, interest, and finance charges paid by the consumer to the card issuer. The decline in the total cost of credit has occurred even as annual fees and interest rates have increased, indicating a shift from back-end pricing toward more transparent front-end pricing that consumers can understand and evaluate more easily.

- **Overlimit fees have been effectively eliminated:** Before the CARD Act took effect, card issuers could charge an overlimit fee for transactions that put cardholders over their credit limit. Each overlimit transaction could result in an additional overlimit fee. With the law's requirement that consumers opt-in to fees before they are allowed to exceed their credit limit, the CARD Act essentially eliminated overlimit fees as a source of cost to consumers and revenue to issuers. The report found that consumers paid about $2.5 billion less in overlimit fees than they paid in 2008.

- **Size of late fees declined:** The CARD Act required that penalty fees, such as late fees, be "reasonable and proportional" to the relevant violation of account terms. As a result, the report found that the average size of late fees diminished. The CFPB estimates that the average late fee went down by $6 after the CARD Act took effect. Based on the data used to prepare the report, that reduction resulted in a $1.5 billion decrease in late fees paid by consumers in 2012.

- **Responsible access to credit remains available**: As the financial crisis hit, creditors faced losses and as a result, implemented more restrictive credit standards. While the amount of available credit card credit has generally decreased since the financial crisis began, there is still $2 trillion of unused credit for consumers with credit cards in the marketplace. One factor affecting credit availability is a notable drop in the number of consumers who receive unsolicited credit limit increases on their accounts. Now that consumers have to ask for their credit limit to be raised rather than having it happen automatically, these increases are happening less frequently.

- **Young consumers are better protected from credit cards they cannot afford:** Before the CARD Act, it was often too easy for young consumers to rack up unmanageable credit card debt and damage their credit rating. Now, consumers under the age of 21 cannot get a credit card unless they can demonstrate an independent ability to repay the debt or unless they have a cosigner over 21. The report found that the percent of young adults ages 18-20 that have at least one credit card account has dropped by half.

Areas of Concern

While the CARD Act addressed many problematic practices in the market, the CFPB has outstanding areas of concern as discussed in today's report, including:

- **Add-on products:** Add-on products are optional services sold by credit card companies to cardholders. Examples of these products include debt cancellation, identity theft protection, and credit monitoring. The CFPB has found in some enforcement cases that consumers were being misled by companies into buying these products. The CFPB remains concerned about the ways these products are marketed and will continue to pursue deceptive practices in the market.

- **Fee harvester cards:** The CARD Act report recognizes that application fees or other fees charged before an account is opened do not count toward determining whether a card issuer is violating the CARD Act's rules limiting fee harvester cards. The Bureau will continue to monitor the use of application fees in connection with account openings to determine if it should take action under its available authorities.

- **Deferred interest products:** Credit cards that finance purchases without interest for a period of time are known as deferred interest products. With these products, if the balance is not paid in full by a given date, the accumulated interest is assessed retroactively. The Bureau intends to study the risks and benefits of such products.

- **Disclosures:** The Bureau also has outstanding concerns about disclosures in three different areas:

    - *Online disclosures*: While the CARD Act requires certain disclosures to appear on monthly statements, those consumers that pay their bills online may not see the disclosures. About 25 percent of consumers pay their bill online or through automatic bill payment. The CFPB intends to watch how card issuers provide consumers with disclosures when they access their account in different ways.

    - *Disclosures concerning rewards products*: Many consumers are choosing their credit cards based on rewards programs. Rewards programs, however, can be highly complex, with detailed, confusing rules about how consumers can actually use their rewards. The Bureau will review whether rewards disclosures are being made in a clear and transparent manner. The Bureau will also assess whether additional action is warranted.

    - *Disclosures concerning grace periods*: Most cards allow consumers to avoid paying interest on purchases when they pay their balance in full each month. The period between the end of a billing cycle and the payment due date is called the "grace period." The CFPB wants to ensure that consumers know that once they carry a credit card balance into a new month, they no longer enjoy the grace period on new purchases. The CFPB found this to be an area that merits future attention.

A copy of today's report can be found at: http://files.consumerfinance.gov/f/201309_cfpb_card-act-report.pdf

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The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit consumerfinance.gov.