CONSUMER FINANCIAL PROTECTION BUREAU | OCTOBER 2023

The Consumer Credit Card Market

Consumer Financial Protection Bureau

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Executive summary

This study represents the CFPB's sixth biennial report on the state of the consumer credit card market and continues the approach of the CFPB's previous reports. The CFPB revisits similar baseline indicators to track key market developments and consumer risks as well as the adequacy of consumer protections. Throughout this report, we continue to examine trends by card type and credit score tier, but further segment consumers with the highest scores into two new groups, prime plus (720 to 799) and superprime (800 and above). In a new section, this report examines the market dynamics, concentration, and profitability of the credit card industry in detail, complementing other regulators' examination of the safety and soundness of card issuers. We explore new topics that have become more important as the market continues to evolve. For example, the current report explores the prevalence and cost of installment plan features and the dollar value of credit card rewards. Additionally, we discuss issuer practices related to dispute resolution, minimum payments, and servicemember rate reductions.

- **Use of credit:** Credit card debt at the end of 2022 surpassed $1 trillion for the first time in our data, but total outstandings remain below pre-pandemic levels when adjusted for inflation. Spending grew to new highs of $846 billion in the fourth quarter of 2022. At the same time, total payments rose, and cardholders paid significantly more of their monthly balances with a greater share of accounts entirely paid off each month. Delinquency and charge-off rates in 2022 were at lower levels than 2019 but increasing, presumably rising with the expiration of COVID-19 related financial relief.

- **Overall market size and structure:** Nearly 4,000 issuers, together with dozens of co-brand merchant partners and four major networks, provide cards to over 190 million consumers. The top ten credit card issuers still represent over four-fifths of consumer credit card loans, but the next 20 biggest issuers' market share has grown since 2016.

- **Competition and profitability:** For companies involved in credit card issuance, servicing, and debt collection, the industry remains profitable. Issuers' profitability fell in 2020 but spiked in 2021 and remained at or above 2019-levels in 2022 with an average return on assets of six percent for general purpose cards and two percent on private label portfolios. Point-of-sale; Buy Now, Pay Later (BNPL); and fintech personal loans as well as "pay-by-bank" options increasingly compete with traditional credit cards for purchase volume and balances.

- **Cost of credit:** By some measures, credit cards have never been this expensive, as issuers charged more than $130 billion in interest and fees in 2022 alone. By the end of 2022, interest and fees as an annualized percentage of balances, or the total cost of credit, was almost 18 percent on general purpose cards and over 21 percent on private label accounts. Many cardholders with subprime scores are now paying 30 to 40 cents in interest and fees per dollar borrowed each year. Federal Reserve rate increases triggered upward repricing on most general purpose cards, and issuers continue to price well above the prime rate, with an average annual percentage rate (APR) margin of 15.4 percentage points. Fee volume now exceeds pre-pandemic levels. Annual fees grew in 2021 and 2022, while late fees returned to 2019 levels at $14.5 billion as did the cardholder cost of balance transfers and cash advances.

- **Rewards:** The dollar value of rewards earned by general purpose cardholders exceeded $40 billion for mass market issuers in 2022. Transacting accounts, or those where the cardholder pays the full statement balance each month, are increasingly benefitting from credit card use. But, when a consumer revolves a balance on their credit card, the cost of interest and fees almost always exceeds the value of rewards the consumer may have earned. Cardholders' rewards redemptions have increased, but consumers still forfeit hundreds of millions of dollars in rewards value each year.

- **New features and products:** Installment plan features which permit cardholders to convert a credit card purchase to a lower-cost, fixed-rate loan comprise a small but growing segment of the market designed to compete with BNPL. These issuer plans often offer lower finance charges than on revolving debt, but consumers may struggle to make higher monthly payments. "Credit card-as-a-service" platforms from fintechs to traditional banks have streamlined co-brand partnerships to improve user experience and offer novel rewards with smaller retailers. Some issuers are now approving consumers with only soft inquires on consumers' credit reports; others are underwriting consumers without credit scores using new datasets and modeling techniques outside the traditional credit reporting system. Issuers are providing cardholders with more flexible repayment terms and new payment options, including through a growing number of digital wallets.

- **Persistent debt:** With the average minimum payment due increasing to over $100 on revolving general purpose accounts in 2022, more users are incurring late fees and facing higher costs on growing debt. We find one in ten general purpose accounts are charged more in interest and fees than they pay toward the principal each year, indicating a pattern of persistent indebtedness that could become increasingly difficult for some consumers to escape. Public relief programs in 2020 and 2021 enabled some consumers to pay down credit card balances, but the number of cardholders facing persistent debt has begun to climb.

- **Availability of credit:** Most measures of credit card availability grew in 2021 and 2022 after a sharp decrease in access during 2020. Application volume for general purpose credit cards reached a new peak in 2022, as issuers increased acquisition efforts and consumer demand grew. For retail cards, in contrast, application volume fell from 2020 to 2022. Approval rates more than rebounded for all card types. The recent upticks in marketing, applications, and approvals led to significant growth in credit card originations in 2021 with even more activity in 2022. Consumers with below-prime scores opened more than 80 million new credit card accounts in 2021 and 2022 combined compared to 63 million over the two year period from 2019 through 2020. Total credit line across all consumer credit cards increased to over $5 trillion in 2022 but remained below 2017 levels in real terms. After declining in 2020, issuers initiated credit line increases more frequently in 2021 and 2022 than they did prior to the pandemic but decreased lines or closed accounts at rates similar to those seen over the past decade.

- **Disputes:** Credit card disputes spiked with pandemic-related cancellations and supply chain issues in mid-2020, declined in 2021, but then rose in 2022 as spending grew. Disputed transaction volume for mass market issuers was up 50 percent from 2019 levels to almost $10 billion in 2022, and chargebacks increased more than 80 percent from $3.2 billion to $5.9 billion.

- **Account servicing:** Cardholders increasingly use and service their cards through digital portals, including those accessed via mobile devices. Three in four general purpose accountholders are now enrolled in issuers' mobile apps, and adoption is increasing, notably for those under 65. The use of automatic payments has likewise continued to climb. New artificial intelligence (AI)/machine learning (ML) technologies are changing how providers service accounts, but concerns regarding the use and sharing of consumer data remain significant, particularly among older cardholders.

- **Debt collection:** Compared to prior surveys, the use of email in collections continued to increase in 2022, with consumers opening about one-third of messages. Issuers seemed to leverage the text messaging (or SMS) channel significantly more in 2022 than in prior years with a relatively low opt-out rate at 1.3 percent. New enrollments in loss mitigation programs and total inventory in those programs declined. Post-charge-off settlements fell significantly from their previous peaks during the pandemic. All issuers who sold debt reported deleting the charged-off tradelines from credit reports upon sale, potentially resulting in an incomplete view of consumers' debt burden, likelihood of default, and history in the credit reporting system.

Throughout this report, we highlight potential areas of concern in the consumer credit card market. Given rising balances and credit costs, more cardholders may struggle to pay their credit card bill on time, especially with amounts past-due, overlimit, or under an installment plan added to the minimum payment due. As such, the CFPB will continue to monitor assessments of late fees, reliance upon penalty repricing, and debt collection practices, alongside the disclosure of minimum payments in accordance with CARD Act requirements. Issuers' margins are increasing as they price APRs further above the prime rate, potentially signaling a lack of price competition. Instead, companies offer more generous rewards and sign-up bonuses to win new accounts, largely benefitting those with higher scores who pay their balances in full each month. The CFPB will explore ways to promote comparison shopping on purchase APRs—a major cost of credit cards that is often unknown to consumers prior to card issuance. We will also monitor changes in rewards value if issuers look to cut costs in response to lower revenue. We encourage new entrants—both bank and non-bank—to work on providing consumers with more transparency, better experiences, and greater access to credit, so long as they comply with existing consumer finance laws.

1. Introduction

In 2009, Congress passed the Credit Card Accountability Responsibility and Disclosure Act of 2009 (CARD Act or Act).[1] The Act made substantial changes to the credit card market. The CARD Act mandated new disclosures and underwriting standards, curbed certain fees, and restricted interest rate increases on existing balances.

Among the CARD Act's many provisions was a requirement that the Board of Governors of the Federal Reserve System (Federal Reserve Board) report every two years on the state of the consumer credit card market. With the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) in 2010, that requirement transferred to the Consumer Financial Protection Bureau (CFPB) alongside broader responsibility for administering most of the CARD Act's provisions.[2] This is the sixth report published pursuant to that obligation, building on prior reports published by the CFPB in 2013, 2015, 2017, 2019, and 2021.[3]

1.1 Report mandate

As mandated by the CARD Act, this report represents the CFPB's sixth biennial review, "within the limits of its existing resources available for reporting purposes, of the consumer credit card

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[1] The Act superseded a number of earlier regulations that had been finalized, but had not yet become effective, by the Office of Thrift Supervision (OTS), the National Credit Union Administration (NCUA), and the Board of Governors of the Federal Reserve System. Those earlier rules were announced in December of 2008 and published in the Federal Register the following month. *See* 74 FR 5244 (Jan. 29, 2009); 74 FR 5498 (Jan. 29, 2009). The rules were withdrawn in light of the CARD Act. *See* 75 FR 7657, 75 FR 7925 (Feb. 22, 2010).

[2] 15 U.S.C. § 1616(a) (2012).

[3] See CFPB, *Card Act Report* (Oct. 1, 2013) (2013 Report), http://files.consumerfinance.gov/f/201309_cfpb_card-act-report.pdf; CFPB, *The Consumer Credit Card Market* (Dec. 2015) (2015 Report), http://files.consumerfinance.gov/f/201512_cfpb_report-the-consumer-credit-card-market.pdf; CFPB, *The Consumer Credit Card Market* (Dec. 2017) (2017 Report), https://files.consumerfinance.gov/f/documents/cfpb_consumer-credit-card-market-report_2017.pdf; CFPB, *The Consumer Credit Card Market* (Aug. 2019) (2019 Report), https://files.consumerfinance.gov/f/documents/cfpb_consumer-credit-card-market-report_2019.pdf; CFPB, *The Consumer Credit Card Market* (Sep. 2021) (2021 Report), https://files.consumerfinance.gov/f/documents/cfpb_consumer-credit-card-market-report_2021.pdf. The CFPB also held a conference in 2011 on developments in the credit card market. *See* Press Release, CFPB, *CFPB Launches Public Inquiry on the Impact of the Card Act* (Dec. 19, 2012), https://www.consumerfinance.gov/about-us/newsroom/consumer-financial-protection-bureau-launches-public-inquiry-on-the-impact-of-the-card-act.

market."[4] As was true in the CFPB's previous reports, it addresses the following topics explicitly enumerated by Congress for inclusion in this review:

1. the terms of credit card agreements and the practices of credit card issuers;
2. the effectiveness of disclosure of terms, fees, and other expenses of credit card plans;
3. the adequacy of protections against unfair or deceptive acts or practices relating to credit card plans; and
4. whether or not, and to what extent, the implementation of this Act and the amendments made by this Act have affected:
    a. the cost and availability of credit, particularly with respect to non-prime borrowers;
    b. the safety and soundness of credit card issuers;
    c. the use of risk-based pricing; or
    d. credit card product innovation.[5]

The CARD Act also requires the CFPB to "solicit comment from consumers, credit card issuers, and other interested parties" in connection with its review.[6] As in past years, the CFPB has done so through a Request for Information (RFI) published in the Federal Register, and we discuss specific evidence or arguments provided by commenters throughout the report.[7]

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4 Reference in this report to any specific commercial product, service, firm, or corporation name is for the information and convenience of the public and does not constitute endorsement or recommendation by the CFPB. The CFPB notes that many players in the credit card industry are also entities with which the CFPB has one or more institutional relationships, such as a research partnership or membership on a CFPB-convened body.

5 15 U.S.C. § 1616(a) (2012). While this report presents information which may be relevant to assessments of safety and soundness issues relating to credit card issuers, the CFPB does not produce any further analysis on this subject in this report. The prudential regulators (*e.g.,* the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the National Credit Union Administration) have the primary responsibility for monitoring the safety and soundness of financial institutions.

6 15 U.S.C. § 1616(b) (2012).

7 Request for Information Regarding Consumer Credit Card Market, 88 FR 5313 (Jan. 27, 2023).

1.2 Data sources

This report leverages several data sources, including:

1. The CFPB's Consumer Credit Panel (CCP): a comprehensive, national 1-in-48 longitudinal sample of de-identified credit records maintained by one of the three nationwide consumer reporting agencies. These data contain no personal identifiers, such as name, address, or Social Security number; [8]

2. The Federal Reserve Board's "Y-14M" (Y-14) Data Collection: monthly portfolio- and account-level data from bank holding companies that have total consolidated assets of $100 billion or more. [9] The de-identified account-level data received by the CFPB cover the period from the middle of 2012 through the present and accounted for just under 70 percent of outstanding balances on consumer credit cards as of year-end 2022; [10]

3. Data provided in response to two distinct sets of filing orders:

    a. Mass Market Issuer (MMI) Data: summary data requested from a group of major credit card companies covering topics included in neither the CCP nor Y-14, such as applications, approvals, rewards, disputes, account servicing, debt collection, and other issuer practices;

    b. Specialized Issuer Data: summary data requested from a diverse group of issuers that in places supplement the Y-14 to allow for a broader or more detailed perspective into credit card usage and cost for specific facets of the market.

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[8] Other CFPB products, such as Consumer Credit Trends reports, rely on these data.

[9] *See* Bd. of Governors. of the Fed. Rsrv. Sys., *Reporting Forms FR Y-14M*, https://www.federalreserve.gov/apps/reportingforms/Report/Index/FR_Y-14M (last accessed Jan. 11, 2023) for more information on the Y-14M collection. Information in the Y-14 data do not include any personal identifiers. Additionally, accounts associated with the same consumer are not linked across issuers. The Y-14 does not include transaction-level data. In addition, this study reports only aggregate measures and reveals no information about any specific issuer. These data replace loan-level credit card data collections the CFPB previously collected. The CFPB no longer requires or oversees the collection of any loan-level credit card data on an ongoing basis.

[10] The Federal Reserve Board has expanded the fields it collects from bank holding companies over time and has changed the asset threshold for submission from $50 billion to $100 billion since the collection began; therefore, some results reported below do not extend all the way back to 2012. Additionally, these data are periodically revised retroactively, and are therefore not fully static. These issuers represent a large portion of the market but are not necessarily representative of the portion of the market not covered by the data the CFPB receives. The remainder of the market, representing a substantial number of consumer credit cards, are outside the scope of the Y-14 data used by the CFPB because, among other reasons, they are issued by banks owned by bank holding companies with assets of less than $100 billion, or are issued by non-banks, such as credit unions. Results reported from Y-14 data throughout this report should be interpreted accordingly.

Where these data supplement Y-14 data, those data are collectively called "Y-14+;"[11]

4. The CFPB's Quarterly Credit Card Agreement Database: a quarterly collection of most credit card agreements available to consumers as submitted by issuers with 10,000 or more accounts as of the last business day of the calendar quarter;[12]

5. RFI Comments: 2,936 comments in response to a Federal Register notice addressing all aspects of the review described in Section 1.1 above. 2,728 were submitted as part of a consumer campaign that wrote, "I support the Consumer Financial Protection Bureau's work reviewing the work of Credit Card companies and reining in abusive practices. I've had my own bad experiences, and I'm grateful that the CFPB is fighting for me." 208 were not submitted as part of that campaign. Of the substantive, credit-card related comments that were either not part of the campaign or went beyond the campaign's language, 369 were submitted by individual consumers, nine by consumer advocacy organizations, eight by trade groups, five by credit unions, one by a government organization, one by an academic, one by a debt collection agency, one by a fintech, and two in an "other" category;

6. The CFPB's Consumer Complaint Database: a compilation of complaints on credit cards that consumers have submitted to the CFPB's Office of Consumer Response;[13] and

7. Third-Party Sources: commercially available or public sources that focus on the credit card industry, including mail volume monitoring reports, industry analyst reports, Securities and Exchange Commission (SEC) filings, studies and data produced by other regulators, academic scholarship, and the press. When adjusting data to account for

[11] The Y-14 data cover a large but not representative portion of the credit card market. The Y-14+ data cover a larger and more representative portion of the credit card market, but the remaining uncovered portion is still substantial, and the Y-14+ data should similarly not be considered representative of that uncovered portion.

[12] 12 CFR 1026.58(c)(5). The database contains most credit card agreements as of quarter's end from the third quarter of 2011 to the fourth quarter of 2014, and from the first quarter of 2016 to present. After the fourth quarter of 2014, the CFPB temporarily suspended collection of agreements for one year while the CFPB developed a more streamlined and automated electronic submission system. Submission and publication resumed in the first quarter of 2016. 80 FR 21153 (Apr. 17, 2015); 12 CFR 1026.58(g). Agreements in the second quarter of 2019 are incomplete due to technical submission issues at the CFPB, and agreements in 2020 and 2021 may include omissions due to the CFPB's previous COVID-19 regulatory flexibility statement, *see* CFPB, *Statement on Supervisory and Enforcement Practices Regarding Bureau Information Collections for Credit Card and Prepaid Account Issuers* (Mar. 26, 2020), https://files.consumerfinance.gov/f/documents/cfpb_data-collection-statement_covid-19_2020-03.pdf.

[13] CFPB, *Consumer Complaint Database*, https://www.consumerfinance.gov/data-research/consumer-complaints/ (last accessed June 27. 2023).

inflation, we use the Consumer Price Index (CPI) for all urban consumers from the Bureau of Labor Statistics. [14]

The limitations inherent to the CFPB's methodology in this report are substantially similar to those inherent in the CFPB's previous reports on the credit card market. [15] All results reported from data throughout this report aggregate results from multiple industry participants. Each source has particular limitations, as not all data rely upon consistent definitions or cover the same periods, products, or phenomena. Additionally, the available data generally do not allow for definitive identification of causal relationships. Accordingly, correlations presented throughout this report do not necessarily indicate causation.

1.3 Definitions

This subsection defines certain additional terms used frequently throughout this report. This is not exhaustive of all remaining defined terms in this report; for example, other defined terms more particular to certain sections or subsections of this report are introduced in those sections or subsections.

Throughout this report, the CFPB refers to consumer credit scores. Lenders typically determine consumers' credit eligibility and pricing using credits scores based on data from major national consumer reporting agencies alongside other data sources. When reporting results by credit scores in this report, scores are generally grouped into six tiers: superprime (800 or greater), prime plus (720 to 799), prime (660 to 719), near-prime (620 to 659), subprime (580 to 619), and deep subprime (579 or less). [16] Previous reports only used five tiers as they did not break out the prime plus category. Using six tiers better captures differences in cost, use, and availability for the almost two-thirds of cardholders with scores greater than 720. Where historical data are used or in places with limited coverage of cardholders with scores below 620, fewer than six credit score tiers may be represented.

Data relied upon in this report include widely used, commercially available credit scores, but as issuers use different credit scores, [17] a given account's "credit score tier" may differ from bank to

[14] U.S. Bureau of Labor Statistics, *Consumer Price Index for All Urban Consumers*, https://www.bls.gov/cpi/ (last accessed June 27, 2023).

[15] *See*, *e.g.*, 2015 Report, at 27.

[16] *See* Section 2.1 for the distribution of cardholders by credit score tier.

[17] It is also typical for lenders to supplement commercially-available scores with proprietary models to assess an account's creditworthiness.

bank. Different credit score models, while fundamentally similar, may include or exclude different information or weight data differently when predicting a consumer's relative likelihood of default. Credit scores in the CCP and Y-14 are updated regularly. Unless noted otherwise, accounts and consumers are classified into tiers based on their credit scores at that point in time; therefore, the number of observations in a tier change over time. The CFPB believes that different credit scoring methodologies, over the time periods and set of market participants examined in this report, are sufficiently consistent to remain informative and useful to report aggregate results and changes over time by credit scores. [18]

Outstandings, or the nominal amount owed by consumers on a specific date, is one method for measuring consumer credit card indebtedness. A second method entails measuring balances, or the amount owed by consumers at the end of their billing cycle, within a given month. This report uses the term "debt" to refer to both of these amounts interchangeably.

The flexibility in use and repayment of credit cards leads to two types of credit card debt. Consumer credit card debt includes both "revolving" debt—the amount owed on accounts for which a positive cycle beginning balance was *not* paid in full by the statement due date—and "transacting" debt—the amount owed on accounts for which the non-zero, non-negative balance was paid in full by the statement due date. Most credit cards provide a grace period where, if a cardholder does not carry a balance, they will not accrue interest prior to the due date. Therefore, revolving debt typically bears interest starting from the date of purchase while transacting debt under a grace period does not. Cardholders at any given point can be classified as a "revolver" or a "transactor" based on whether they pay their statement in full each month.

Throughout this report, we refer to different, and at times overlapping, types of credit cards when describing the market:

- "General purpose" cards are those that transact over a network accepted by a wide variety of merchants;
- "Private label" cards can only be used at one merchant or a small group of related merchants and lack network branding; [19]

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[18] *See* 2021 Report, *supra* note 3, at 20.

[19] Private label cards generally transact over a private network maintained by the issuer to which the merchant is granted access. Some cards can transact over both a private label network and a general purpose network. For example, a consumer may be issued a card that features a merchant's brand as well as a general purpose network brand. When used at the merchant, the transaction may be routed over the issuer's private network, but at other merchants the transaction is routed over the general purpose network. For the purposes of this report, those cards are considered to be general purpose credit cards except where explicitly noted otherwise.

- "Co-brand" cards are a subset of general purpose cards that include both the badge of a network and branding of a specific merchant such as a retailer, airline, or hotel chain; and
- "Retail" cards are a combined category of both private label cards and some general purpose, co-brand cards managed by a business unit that specializes in credit cards offered in partnership with specific merchants. Retail cards do not include network-branded cards that carry hotel or airline branding, even if those cards are managed by a business unit that specializes in retail credit cards. In some sections, data related to co-brand cards managed by a retail unit are not included in general purpose totals, as noted.

2. Market dynamics

This new section of the report describes players in the consumer credit card market. This report generally focuses on the state of the consumer credit card market through the lens of cardholders; therefore, this section first establishes the number of consumers with at least one credit card. Then, it addresses issuers as the provider of credit and primary point of contact for consumers by detailing the breadth and concentration of the market for credit card issuance, as well as issuer profitability. By examining portfolio-level revenue and expenses, we establish a foundation on which to analyze credit card market competition and innovation moving forward. However, issuers are not the only companies in the credit card payments ecosystem. As such, this chapter also describes the role of merchant partners in offering co-brand credit cards and concludes with an overview of card networks and the credit card debt collection industry.

2.1 Cardholders

The CFPB estimates that 190.6 million of the 258.3 million adults in the United States (74 percent) had a credit card account in their name as of the end of 2021. [20] Around 90 million consumers hold only a general purpose credit card, 10 million hold only a private label card, and 90 million have at least one of each. The share of consumers with credit cards differs by credit score and age over time.

[20] This estimate is according to coverage of credit records present in the CCP sample, though it does not include authorized users, who are individuals designated by the primary accountholder to use the same credit account. For the number of adults in the United States, we rely upon data from the 2020 census. *See* United States Census Bureau, *U.S. Adult Population Grew Faster Than Nation's Total Population From 2010 to 2020* (Aug. 2021), https://www.census.gov/library/stories/2021/08/united-states-adult-population-grew-faster-than-nations-total-population-from-2010-to-2020.html. A recent report from the Federal Reserve finds 82 percent of consumers report having at least one credit card. *See* Federal Reserve Board, *Report on the Economic Well-Being of U.S. Households in 2022*, at 44 (May 2023), https://www.federalreserve.gov/publications/files/2022-report-economic-well-being-us-households-202305.pdf. Throughout this report, some statistics are about three percent different compared to what is reported in the 2021 Report, due to revisions to the data and methodology.

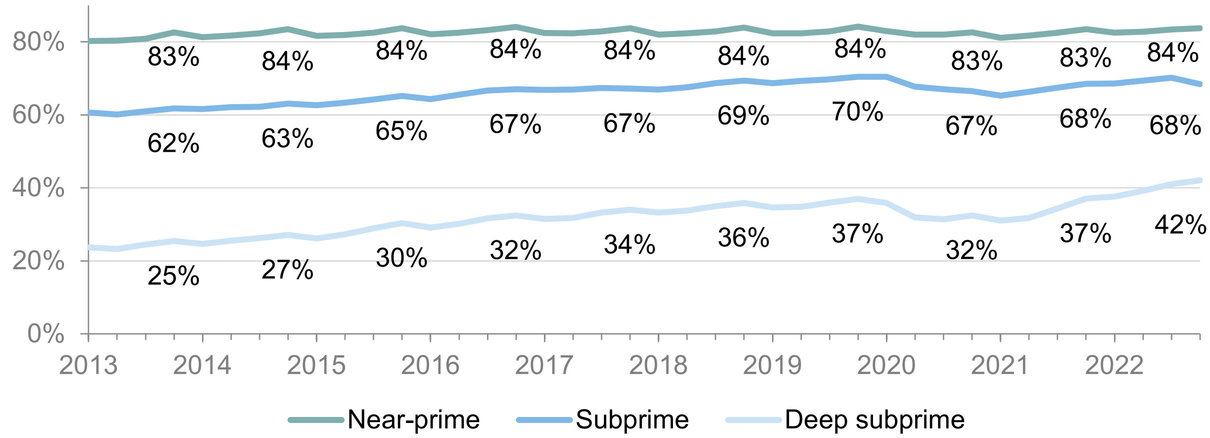
TABLE 1: CONSUMERS BY CARDHOLDING BEHAVIOR, YEAR-END 2021 (CCP)

Credit score tier	General purpose card(s) only	Private label card(s) only	At least one of each	No credit card
Superprime	21.7M	0.5M	26.0M	0.1M
Prime plus	36.0M	3.8M	32.4M	6.9M
Prime	12.7M	1.7M	17.1M	6.8M
Near-prime	6.8M	1.2M	7.8M	1.7M
Subprime	5.3M	1.2M	4.0M	2.1M
Deep subprime	6.2M	1.5M	3.0M	7.1M
Thin or stale score file [21]	1.4M	0.1M	0.1M	33.4M

As shown in Figure 1, the share of consumers with below-prime credit scores who have at least one credit card rebounded as the nation emerged from the pandemic. Across time, a larger share of consumers with near-prime credit scores has credit cards than those with subprime, who in turn are more likely to have a credit card than consumers with deep subprime credit scores. However, as of year-end 2022, cardholding by adults with deep subprime credit scores was at its highest level since at least 2013. All three below-prime score groups saw dips in credit card ownership in 2020 and early 2021, but it swiftly rebounded up to or above pre-pandemic levels in late 2021 and 2022.

[21] This measure may include fragmented files.

FIGURE 1: QUARTERLY SHARE OF BELOW-PRIME CONSUMERS WITH AT LEAST ONE CREDIT CARD (CCP)

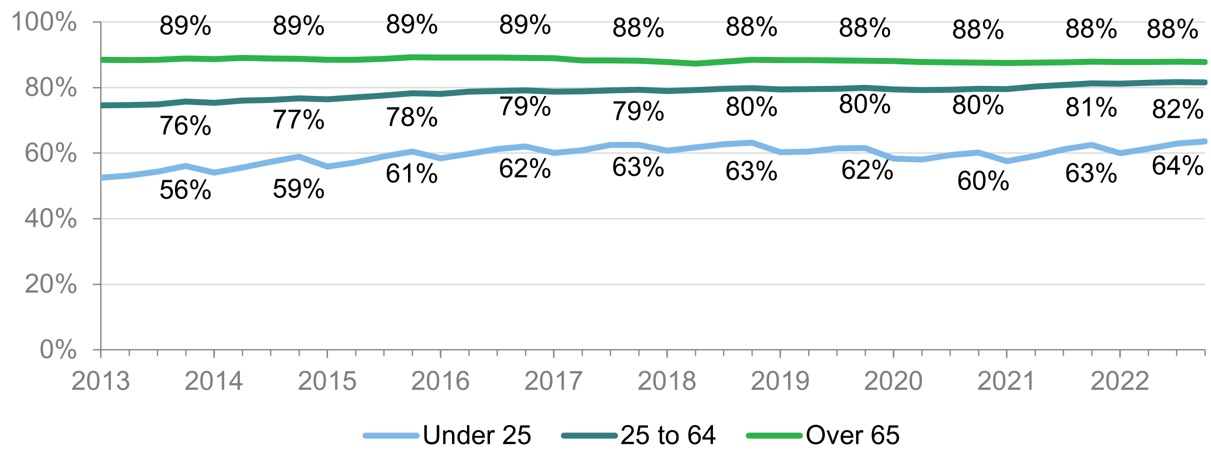


Older consumers are consistently more likely to carry a credit card, but the share of younger consumers with a credit card has trended slightly up over the last 10 years. [22] From 2013 to 2022, on average, 88 percent of consumers over 65 had at least one credit card. In 2013 and 2014, only 56 percent of consumers aged under 25, and 76 percent of consumers aged 25 to 64 had a card. By the end of 2022, these shares had grown to 64 percent for consumers under 25 and 82 percent for consumers in the middle age range. [23]

[22] A consumer advocacy group wrote that older Americans face unique challenges with credit card use and access: "Older Americans are more likely than their younger counterparts to be unable to pay or make only a partial payment on their credit cards. Therefore, the Bureau must pay special attention to policing the use of unfair, deceptive, or abusive practices in the credit marketplace to harm consumers within this age group. Similarly, the CFPB must work to ensure there are responsible credit options for older consumers." *See* AARP comment at 3.

[23] One consumer and a credit union wrote that cards should be more accessible to young people, *see* Mindy Cole and Randolph-Brooks Federal Credit Union comments, but more commentors were concerned that getting a credit card, and subsequently accumulating credit card debt, was too easy for younger borrowers, *see* New York City Department of Consumer and Worker Protection at 4, Deonet Wolfe, JoEllen Rudolph, and Nancy Petranto comments.

FIGURE 2: QUARTERLY SHARE OF SCORED CONSUMERS WITH AT LEAST ONE CREDIT CARD, BY AGE (CCP)



2.2 Issuers

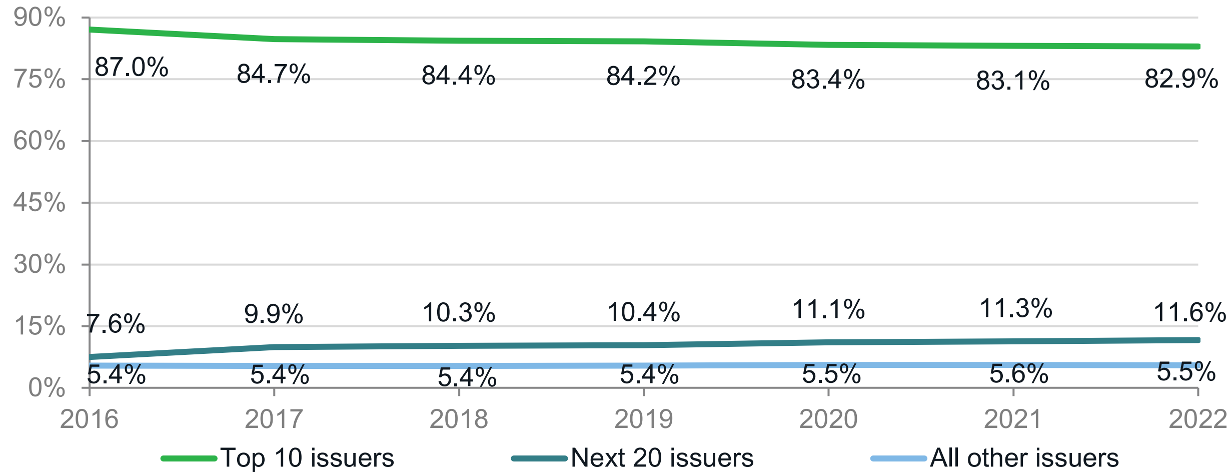
2.2.1 Concentration

About 4,000 financial institutions offer credit cards, yet a handful of issuers represent an overwhelming majority of credit card debt.[24] The top 10 issuers by average credit card outstandings represented 83 percent of credit card loans in 2022, continuing a decline from 87 percent in 2016.[25] The next 20 issuers by reported credit card debt accounted for 12 percent, an increase of four percentage points over the past six years. 3,800 smaller banks and credit unions account for the remaining five to six percent of the market. No single issuer outside the top 15 represented more than one percent of total credit card loans in regulatory filings.

[24] One commentor wrote a letter arguing that the current credit card market is highly concentrated and features high interest rates, excess returns for credit card issuers, and regular antitrust suits, *see* Tristan Campbell comment. Another individual wrote that credit cards are uniquely competitive compared to other financial services, *see* Nick Meyer comment.

[25] Although concentration appears to have declined in recent years, fewer banks now issue credit cards and the top banks represent a larger share of the market than twenty years ago. In 1994, about 6,000 depository institutions issued credit cards and the top 10 largest credit card issuers held about 57 percent of loans. *See* GAO, *U.S. Credit Card Industry: Competitive Developments Need to Be Closely Monitored* (Apr. 28, 1994), https://www.govinfo.gov/content/pkg/GAOREPORTS-GGD-94-23/html/GAOREPORTS-GGD-94-23.htm.

FIGURE 3: ANNUAL MARKET SHARE BY AVERAGE CREDIT CARD LOANS (REGULATORY FILINGS)[26]



As has been true for the past decade, credit unions represent less than one-tenth of total outstandings, but their share of loans has grown from 6.6 percent of outstandings in 2016 to 7.3 percent in 2022.[27] Some consumers may increasingly choose to open cards at credit unions as the Federal Credit Union Act limits APRs to a maximum of 18 percent.[28] Evidence also suggests that smaller issuers may charge lower fees than the top banks.[29]

The market for private label credit cards is more concentrated than that of the overall consumer credit card market with fewer players representing more of the market. The top six issuers in the private label credit card market represented 95 percent of private label outstandings in 2022.[30]

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[26] For banks, we use data from the regulatory Reports of Condition and Income (Call Reports) on "Average Credit Card Loans to Individuals (Include Credit Card and Related Plans)." This excludes small banks under a certain asset threshold not required to report these data. For bank holding companies, we use "Average Consumer Loans: Credit Cards" from holding company regulatory financials. For Credit Unions, we use "Average Unsecured Credit Card Loans" from credit union regulatory financial statements.

[27] This share includes three credit unions in the top 30 largest credit card issuers. Credit union commentors and their trade associations wrote about the challenges they face competing with banks while serving their members. *See* Credit Union National Association, NAFCU, Randolph-Brooks Federal Credit Union, CrossState Credit Union Association, and First Service Credit Union comments.

[28] *See* National Credit Union Administration, *Permissible Loan Interest Rate Ceiling Extended* (Mar. 2023), https://ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/permissible-loan-interest-rate-ceiling-extended-2#:~:text=The%20Federal%20Credit%20Union%20Act%20generally%20limits%20federal%20credit%20unions,interest%20rate%20ceiling%20on%20loans..

[29] *See* Joanna Cohen, Lucas Nathe, László Sándor, Margaret Seikel, and Wei Zhang, *Credit card late fees* (Late Fee Report), CFPB, at 15 (Mar. 2022), https://www.consumerfinance.gov/data-research/research-reports/credit-card-late-fees/.

[30] The Nilson Report, *No. 1226*.

Notably, the use of private label cards has been declining, potentially due to increased competition from other products.[31]

2.2.2 Profitability

Credit card issuers' profitability is relevant to consumers, as the revenue and expenses of credit card companies drive the cost and value of the product. The returns associated with credit card operations consistently exceed earnings for other bank activities.[32] While banks with a credit card business may also engage in other banking activities, this section is focused solely on the revenue, expenses, and profitability of banks' domestic consumer card portfolios. In this report, we use Return on Assets (ROA) to evaluate the profitability of credit card portfolios. ROA is equal to net income related to credit card activities divided by average credit card receivables. Individual expense and revenue line items are expressed as a percentage of average receivables to provide insight into how efficiently the industry manages expenses and converts balances into revenue.[33] Although certain revenues and expenses, such as those related to interchange and rewards, fluctuate based on purchase volume rather than outstandings, we present line items relative to receivables for comparison purposes. The CFPB has not assessed issuer profitability in this manner in previous iterations of this report but has examined this topic in other publications.[34]

The average ROA on credit card lending activities for banks in the Y-14+ was 5.9 percent on general purpose portfolios and 2.1 percent on private label portfolios in 2022.[35] While these rates are similar to that observed in 2019, ROA experienced a decrease in 2020 and then a spike

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31 For further discussion on debt and purchase volume by card type, *see* Section 3. For further discussion of competitors, *see* Section 7.

32 *See* Board of Governors of the Federal Reserve System, *Report to the Congress on the Profitability of Credit Card Operations of Depository Institutions* (Jul. 2021), https://www.federalreserve.gov/publications/files/ccprofit2021.pdf

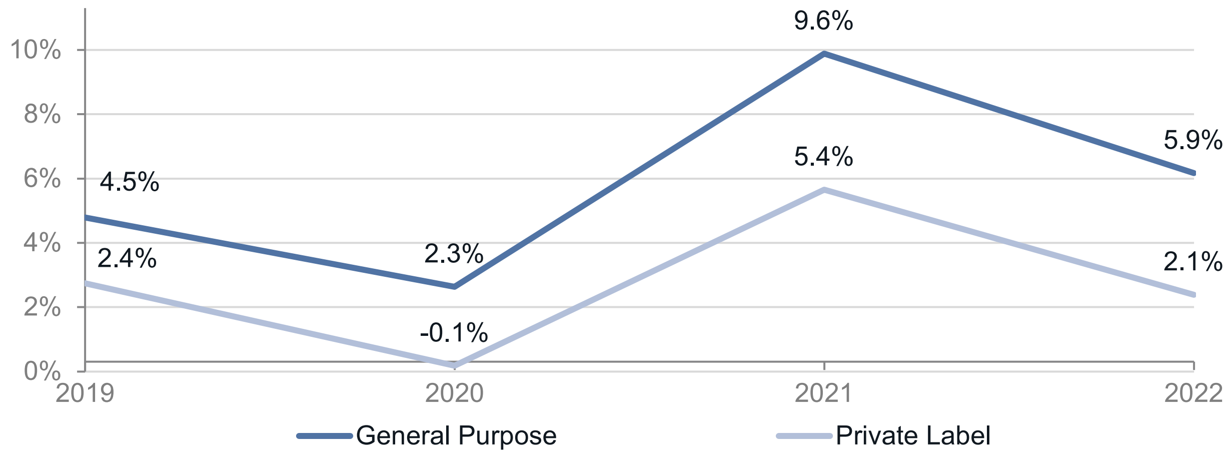
33 Although certain revenues and expenses, such as those related to interchange, fluctuate based on purchase volume rather than outstandings, we present line items relative to receivables for comparison purposes.

34 Margaret Seikel, *Examining the factors driving high credit card interest rates,* CFPB (Aug 12, 2022), https://www.consumerfinance.gov/about-us/blog/examining-the-factors-driving-high-credit-card-interest-rates/.

35 This estimate is according to coverage of consumer credit card portfolios for the card issuers in the Y-14+ dataset. A recent report from the Federal Reserve found an average ROA for the eight largest credit card banks of 4.71 percent in 2022. *See* Bd. of Governors of Fed. Rsrv. Sys., *Profitability of Credit Card Operations of Depository Institutions* (July 2023). A paper using the Y-14 and different groupings of portfolios found a quarterly ROA typically between 1 and 2 percent. *See* Robert Adams et al., *Credit Card Profitability*, Bd. of Governors for the Fed. Rsrv. Sys., (published Sept. 9, 2022, updated Apr. 20, 2023), https://www.federalreserve.gov/econres/notes/feds-notes/credit-card-profitability-20220909.html. The Federal Deposit Insurance Corporation (FDIC) estimated ROA was 3.7 percent for credit card banks in 2022. *See* FDIC, *Quarterly Banking Profile*, at 12 (2023), https://www.fdic.gov/analysis/quarterly-banking-profile/qbp/2023mar/.

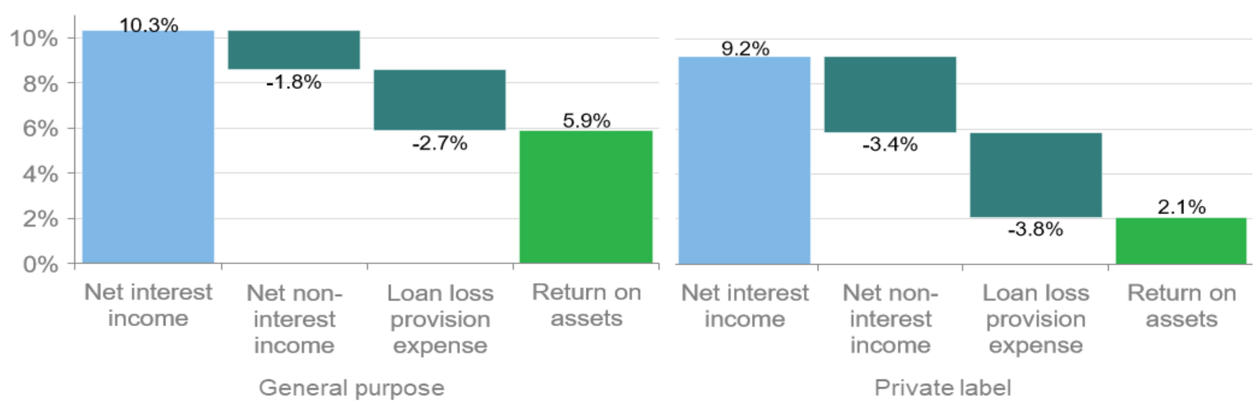
the next year, largely explained by changes in loan loss provision expense.[36] The ROA on general purpose portfolios exceeded that of private label cards for each year in our data.

FIGURE 4: ANNUAL AVERAGE RETURN ON ASSETS (Y-14+)



Net interest income is the primary driver of card issuer profitability for both general purpose and private label cards, comprising 10.3 and 9.2 percent of receivables in 2022, respectively. Figure 5 displays the major components of ROA as shares of credit card receivables: net interest income, net non-interest income, and loan loss provision expense. For both portfolios, net interest income positively affects profits, while net non-interest income and loan loss provision expense each have a net negative impact on profits.

FIGURE 5: ANNUAL AVERAGE RETURN ON ASSETS, 2022 (Y-14+)



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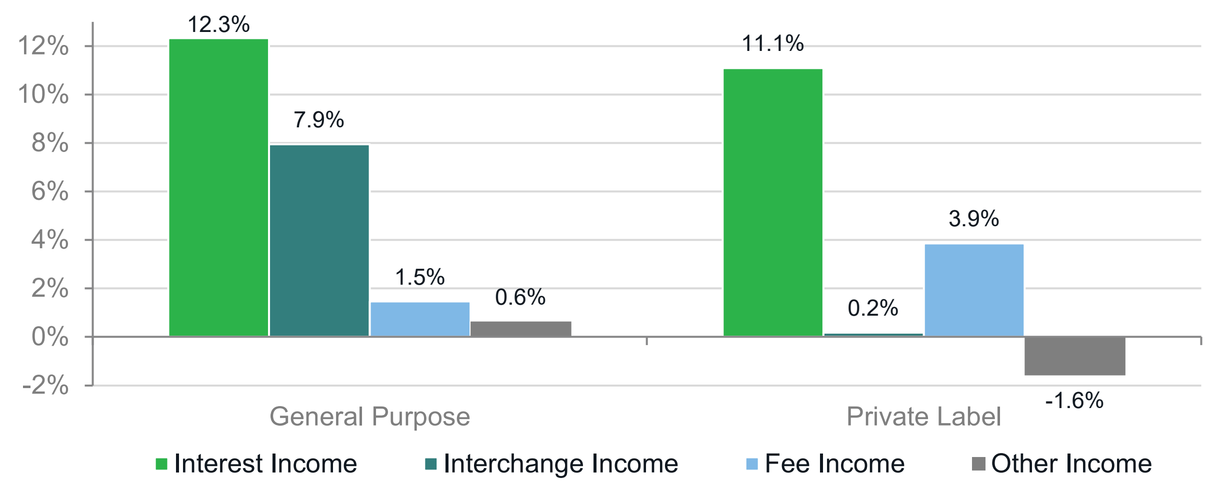
[36] Many consumers submitted comments expressing frustration over credit card companies' high levels of profit. See Comment Letters submitted by Chelsea Yorkshire, Thomas Dunn, Kathi Thonet, Maureen Knutson, Diane Swann, and Natalia Vann.

REVENUE

Interest income is the primary revenue source for the card portfolios of major banks.[37] Figure 6 shows that, for general purpose card issuers, the next largest line item is interchange income,[38] whereas, for private label, it is fee income.[39] Although general purpose card portfolios are less reliant on fees than private label portfolios, fee income as a proportion of receivables is significant for both, representing 1.5 percent and 3.9 percent of managed receivables in 2022 for general purpose and private label cards, respectively. Interchange income has increased from six percent of general purpose receivables in 2019 to eight percent in 2022, but it has not changed significantly as a share of purchase volume (1.8 percent). Interchange revenue has grown proportionally with spending and has grown faster than receivables. For private label portfolios, multiple issuers reported negative values for "other non-interest income."[40] While the specific reason for negative other income varies by issuer, this phenomenon can generally be explained by accounting adjustments, such as divesting from assets over time, which impact the reported income but not necessarily the cash flow in and out of the company.

FIGURE 6: ANNUAL REVENUE LINE ITEMS AS A SHARE OF RECEIVABLES, 2022 (Y-14+)



[37] Credit card issuers generally segment revenue into interest income and non-interest income. Interest income includes all interest charges accrued and billed on credit card receivables while non-interest income is comprised of revenue from interchange, penalty fees, transaction fees, and any other income associated with card operations.

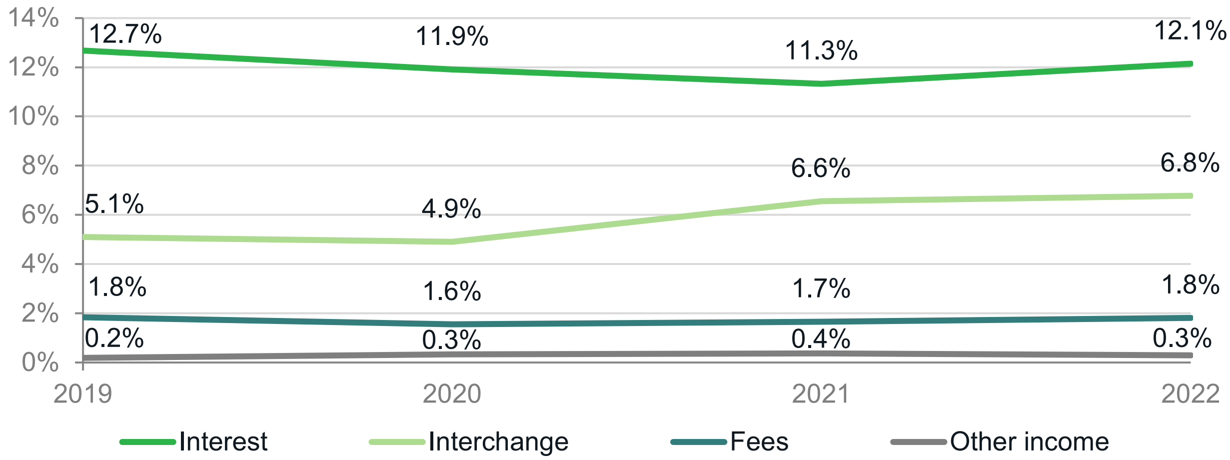
[38] Interchange income is fees received by the issuer from card associations, part of the merchant discount rate.

[39] Private label portfolios have nearly zero interchange income because private label cards operate in a closed loop system (i.e., are only accepted at the merchant associated with the card), so merchants and networks are generally not required to pay interchange fees to networks on transactions.

[40] Y-14 data dictionary defines other non-interest income as revenue "including annual fees, debt suspension/cancellation product fees, etc., associated with card operations."

Interest income as a share of annualized receivables declined in 2021 due to the decline in outstanding balances but returned in 2022 alongside the rebound in debt. Declines in 2021 were more than offset by an increase in interchange revenue, as purchase volume grew in 2021 and 2022. Figure 7 shows that, despite a decline in 2020, interest income remained the primary revenue source for combined general purpose and private label card portfolios of Y-14+ banks from 2019 to 2022, followed by interchange income and then fees.

FIGURE 7: ANNUAL REVENUE LINE ITEMS AS A SHARE OF RECEIVABLES (Y-14+)



EXPENSE

Costs associated with rewards and interchange represented issuers' largest expense category in 2022, exceeding all other non-interest expenses reported in the data.[41] Interchange and rewards expense has grown over time (Figure 8), as purchase volume has increased and competition in rewards has escalated.[42] Interest expense moved with changes in the federal funds rate, decreasing in 2020 and 2021 then increasing in 2022. Overall, the cost of operating a card portfolio ranged from 10 to 13 percent of managed receivables over the four years studied, before considering loan loss provisions.

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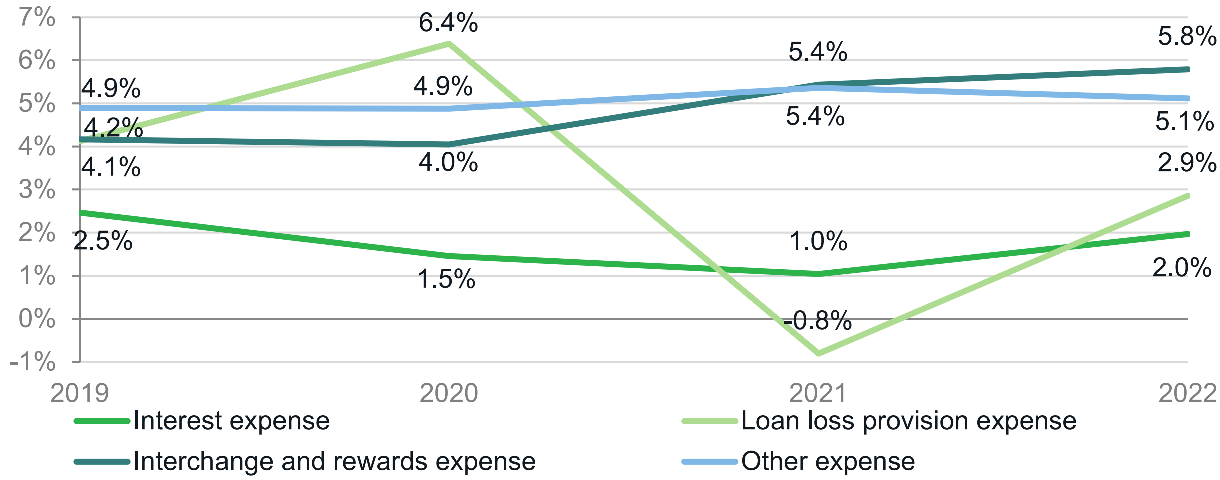
[41] The CFPB does not have full insight into what a bank chooses not to report as card-related expenses, but other operational or marketing budgets may be allocated in other parts of the balance sheet not represented here.

[42] Interchange expense represents the fees issuers pay to networks, typically as a flat rate and/or percentage of purchase volume. Interchange and rewards expense are combined in this section because issuers typically use interchange revenue to cover the cost of both interchange expense and rewards expense. *See* Sections 4.5 and 6.1 and on rewards for more information.

FIGURE 8: ANNUAL EXPENSE LINE ITEMS AS A SHARE OF RECEIVABLES (Y-14+)



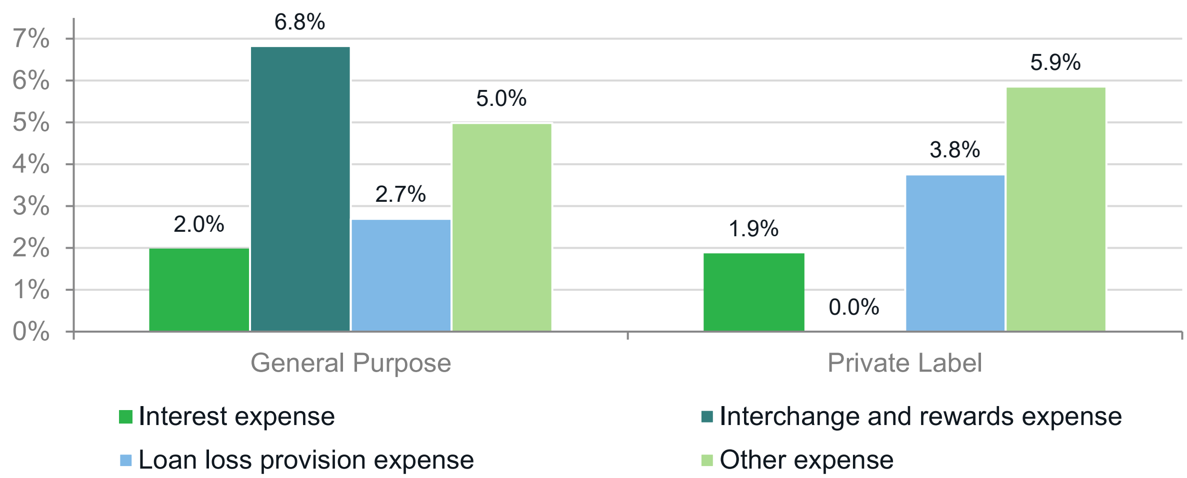
Loan loss provision expense, reflecting the estimated losses associated with an issuer's credit card portfolio, fluctuated in 2020 and 2021 given two concurrent phenomena. First was the implementation of current expected credit losses (CECL) methodology, an accounting standard for estimating allowances for credit losses. Before 2020, banks could report credit loss reserves based on incurred costs, which regulators say often resulted in an underestimation of potential credit losses.[43] CECL added the requirement that banks incorporate forward-looking information in determining their estimated provision for credit losses, as well as provisioning for expected losses over the lifetime of accounts beginning on the date of origination. Second, at the beginning of the COVID-19 pandemic, issuers increased loan loss provisions in preparation for an economic downturn. When a widespread recession did not materialize, issuers responded by rapidly releasing some of their loss provisions. These changes in loan loss provision expense explain most of the variation in ROA seen in Figure 4.

Expenses differ materially between general purpose and private label card portfolios, as private label card issuers do not typically fund rewards via interchange income. General purpose card issuers often spend a significant portion of the interchange revenue they receive on rewards to cardholders: interchange income less interchange and rewards expenses results in a net interchange rate of 1.1 percent of average receivables (or 0.3 percent of annual purchase volume). Therefore, while issuer rewards costs have gone up in recent years, general purpose card issuers typically earn more in interchange than they spend in the form of rewards they provide to consumers, irrespective of any additional borrowing and accrued interest the

[43] *See* Office of the Comptroller of the Currency, *Current Expected Credit Losses* (Apr. 2023), https://www.occ.treas.gov/news-issuances/bulletins/2023/bulletin-2023-11.html.

additional spending may spur. Both general purpose and private label card issuers incur similar interest expense at roughly 2 percent of receivables.

FIGURE 9: ANNUAL EXPENSE LINE ITEMS AS A SHARE OF RECEIVABLES, 2022 (Y-14+)



2.3 Co-brand partners

Hundreds of millions of U.S. consumers are enrolled in loyalty programs at large merchants, and almost 74 million of those consumers also accrue rewards at those companies by using co-branded credit cards.[44] These jointly branded cards are offered, in partnership, by banks issuing the credit cards; a payment network that processes transactions; and a merchant offering points, miles, or other rewards to customers. These credit cards are common, with more than one in three general purpose cards being co-branded in 2021.[45]

Responsibilities in each partnership depend on the contract between the financial institution and its partner. Typically, the partner assists with marketing and account acquisition and the issuer extends credit and services accounts. Since merchant partners provide issuers access to an existing base of consumers, who can generate millions of dollars in interchange and interest

44 Major merchants and consumer brands partner with credit card issuers to offer their customers merchant-branded credit cards. Two types of partnerships include 1) co-branded (or co-brands) that are general purpose credit cards and transact on a network and 2) private label, which primarily operate with a single retailer. Non-retail partnerships typically exist between airlines, hotels, or other travel-based businesses and an issuer. For example, an issuer may offer both co-brand general purpose and private label credit cards in partnership with a major home improvement chain as part of their retail business. The same company may then partner with a large airline to provide general purpose cards that feature the partner's logo and earn rewards in the airline's miles, separate from that retail unit.

45 *See* Packaged Facts, Co-*Branded Credit Cards in the U.S.*, 8th Edition (July 2021).

revenue for the card issuer, these partnerships can be quite lucrative.[46] Winning or renewing a contract may involve multiple issuers responding to a merchant's Request for Proposal (RFP) where banks will compete on offering the best terms for the partner.[47] To compete successfully, an issuer may offer richer payments to the merchant, which may be funded through higher interest and fees or lower rewards for consumers.

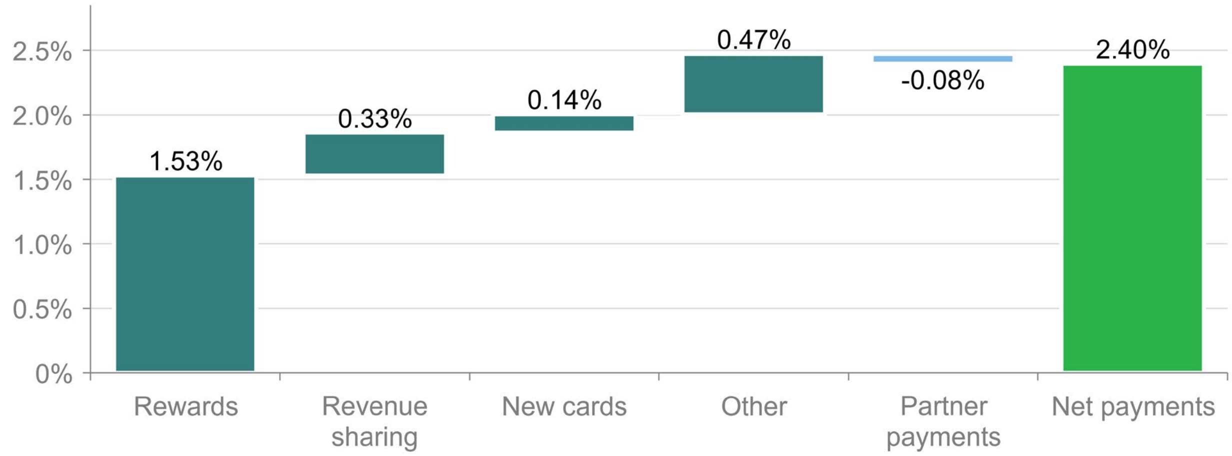
Payments to partners for rewards like points, miles, or other discounts represent the vast majority of payments from issuers to merchants in co-brand relationships at 1.53 percent of purchase volume associated with these large co-brand portfolios. Payments pursuant to revenue sharing agreements then follow at 0.33 percent. Lastly, payments for the acquisition of new cards represent 0.14 percent of spending on all co-brand cards.[48] Other payments from an issuer to a partner include merchant rebates associated with interchange costs; benefits that a bank funds and then a partner fulfills like baggage fees, companion passes, and free nights; contractual funds obligated to operational costs like marketing and staffing; and bonuses based on milestones in card growth. A co-brand partner might pay an issuing bank for reasons like the provision of promotional-financing or loan repayment. However, these payments from partners to issuers are limited and represented less than 0.10 percent of co-brand purchase volume in 2022. Both payments to and from issuers have remained fairly stable as a share of purchase volume since at least 2019. Net of payments from merchants, issuers paid partners an average of $279 per open account in 2022. For their top co-brand partnerships, major banks made total net payments to merchant partners in excess of $28 billion in 2022, a 34 percent increase from 2019 levels.

[46] During the COVID-19 pandemic, many airlines and hotels relied on the issuers of their co-brand credit cards for loans and revenue through the sales of points and miles. *See e.g.* Leslie Josephs and Amelia Lucas, Delta use frequent-flyer program to back $6.5 billion in debt, CNBC (Sep. 2020), https://www.cnbc.com/2020/09/14/delta-launches-6point5-billion-debt-deal-backed-by-its-frequent-flyer-program.html; and Leslie Josephs, *Airlines' frequent flyer programs prove a lifeline even as travelers stay home in pandemic*, CNBC (Oct. 2020), https://www.cnbc.com/2020/10/14/airlines-frequent-flyer-programs-prove-a-lifeline-even-as-travelers-stay-home-in-pandemic.html.

[47] *See e.g.* Hugh Son, *Amazon renews Prime credit card tie-up with JPMorgan Chase after flirting with American Express*, CNBC (Mar. 31, 2022), https://www.cnbc.com/2022/03/31/amazon-prime-amazon-renews-prime-credit-card-pact-with-jpmorgan-after-flirting-with-american-express.html.

[48] The findings in this section were gathered through data provided by several mass market issuers on 33 of their top co-brand card partnerships by 2022 card purchase volume.

FIGURE 10: PAYMENTS TO MAJOR CO-BRAND PARTNERS AS A SHARE OF PURCHASE VOLUME, 2022 (MMI)



2.4 Networks

Networks connect merchants and credit card issuers by maintaining the flow of funds and information, often called "the rails," through which credit card transactions are authorized and settled. The vast majority of general purpose credit cards in the United States run on the Visa or Mastercard networks, representing about 85 percent of accounts in 2021.[49] Most of the remainder are issued on the American Express and Discover networks.[50] These four firms have remained the dominant card networks for decades.[51]

Visa and Mastercard function solely as a network and operate under an "open loop" or "four-party" model in which each transaction facilitated by the network involves the cardholder, issuer, merchant, and acquirer (a financial institution that enables a merchant to accept credit card payments). When a merchant accepts Visa or Mastercard credit cards, they enter into a contract with an acquirer for payment processing services. The acquirer stands between the merchant and the network, routing the transaction from the merchant to the network for

[49] The Nilson Report, *No. 1235*.

[50] These firms are both issuers and networks; however, at times, other banks issue cards on their networks.

[51] In 1950, Diners Club established the first general purpose charge card by first developing relationships with local restaurants. In the following decade, Bank of America started BankAmericard (which later became independent and was renamed Visa) and American Express launched its network; in the 1960s, a group of banks began the Interbank Card Association (later Mastercard). Discover started as a subsidiary of Sears in the 1980s, but became an independent company in 2007, acquiring Diners Club in 2008.

authorization, and routing the payment to the merchant.[52] The agreement between the merchant and acquirer specifies the level of fees for processing transactions, also known as the merchant discount rate.[53]

Transactions on the American Express and Discover networks run on a "closed loop" system with three parties: the cardholder, the merchant, and one company that both issues the card and acts as the network. In most cases, American Express and Discover act as the network, issuer, and acquirer, and they negotiate directly with merchants for the fees assessed on transactions.[54]

Importantly, networks set the level of fees—interchange—that make up the majority of the merchant discount rate. Networks set an interchange schedule which varies based on the type of transaction, the size of the retailer, and the type of credit card used. Issuing banks receive the majority of interchange revenue. However, card networks also receive a fee in exchange for facilitating the transaction using their payment network, oftentimes for including services such as fraud detection. Overall, networks report consistent net margins near 50 percent.[55]

2.5 Debt collectors

Debt collection affects millions of consumers, including many cardholders who face difficulty repaying their credit card debts. As of the first quarter of 2022, nearly one-quarter of all consumers' credit reports (23.5 percent) had at least one collection tradeline.[56] Medical debt made up over half those tradelines in third-party collections, as shown in Figure 11. In contrast, only 13 percent of debt collection tradelines on consumer credit reports were for banking or financial debts (including credit cards). In 2022, 287 unique furnishers reported banking and

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[52] The U.S. acquirer market has seen high levels of consolidation in the past few years, and the handful of major players represent the vast majority of market share as a percentage of both payment volume and transactions. *See* The Nilson Report, *No. 1218*.

[53] Most of the merchant discount fee is interchange paid from the acquirer to an issuer through a network, but the acquiring institution retains the balance of the merchant discount fee. If a merchant becomes bankrupt or otherwise cannot fulfill the promise of goods, the acquirer assumes the risk; likewise, acquirers play a large role in resolving disputes and chargebacks.

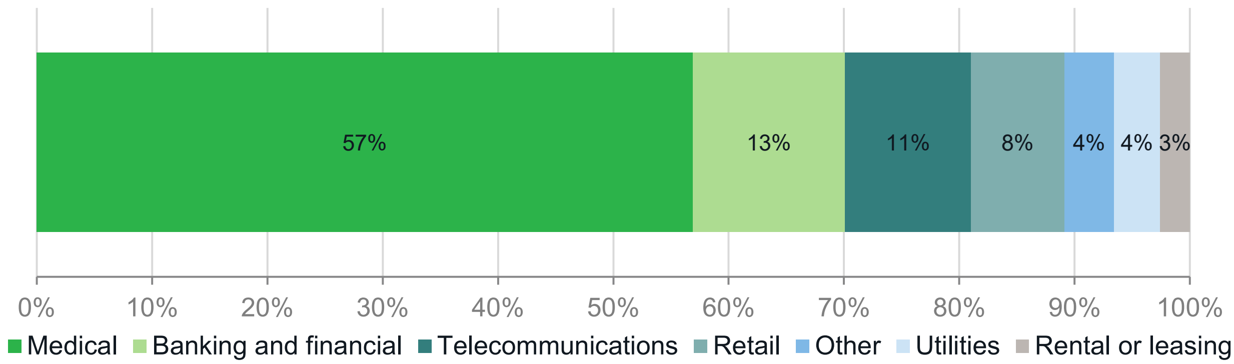
[54] For exceptions, see The U.S. Government Accountability Office, *Credit Cards – Rising Interchange Fees Have Increased Costs for Merchants, but Options for Reducing Fees Pose Challenges*, (Nov. 2009), https://www.gao.gov/assets/gao-10-45.pdf, at 9.

[55] *See* The Economist, *Can the Visa-Mastercard duopoly be broken?*, (Aug. 2022), https://www.economist.com/finance-and-economics/2022/08/17/can-the-visa-mastercard-duopoly-be-broken.

[56] CFPB, *Market Snapshot: An Update on Third-Party Debt Collections Tradelines Reporting*, (Feb. 2023), https://files.consumerfinance.gov/f/documents/cfpb_market-snapshot-third-party-debt-collections-tradelines-reporting_2023-02.pdf.

financial debt collection tradelines, including credit card collections tradelines. The top four furnishers of banking and financial collections tradelines reported 82 percent of these tradelines. [57] However, a credit card in collections sometimes may not appear on consumer credit reports as a debt collection tradeline. In one survey, 44 percent of consumers with debts in collection reported having at least one credit card debt in collections. [58]

FIGURE 11: DISTRIBUTION OF ORIGINAL CREDITOR TYPE AMONG THIRD-PARTY COLLECTIONS TRADELINES, 2022 (CCP) [59]



Over the past four years, debt collection industry revenue has grown. It rose from $12.7 billion in 2019 to $18.2 billion in 2020, [60] even with Federal and state measures restricting collections actions during the COVID-19 pandemic, such as a federal eviction moratorium and state laws restricting call frequencies, litigation, and garnishments. In 2021 and 2022, debt collection industry revenue continued its upward trend, reaching $20.3 billion in 2022, as agencies benefitted from consumers paying down existing balances. [61]

A significant majority of the industry's revenue is generated by firms contracting with creditors and debt buyers to collect their debts on a contingency fee basis. In contingency collections, the collector receives a share of the amount collected as a commission. A significant source of industry revenue comes from debt buyers, who purchase accounts (usually contained in portfolios) from the original creditor or other debt buyers and then generally seek to collect on

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57 *Id.*

58 CFPB, *Consumer Experiences with Debt Collections: Findings from the CFPB's Survey of Consumer Views on Debt*, (Jan. 2017), https://www.consumerfinance.gov/data-research/research-reports/consumer-experiences-debt-collection-findings-cfpbs-survey-consumer-views-debt/.

59 Market Snapshot, *supra* note 56.

60 *See* Tina Fine, *Debt Collection Agencies in the US*, IBISWorld (Jan. 2023).

61 *Id.*

the debt, either by themselves or through third-party debt collectors. Most credit card debt collections tradelines are reported by debt buyers, and as of 2022, debt buyers furnished 17 percent of total third-party collections tradelines.[62] This share has increased by almost 50 percent since 2018. In contrast, collectors that collect on behalf of creditors reported 38 percent fewer collections tradelines over this period.[63]

Total employment by debt collectors has recently increased, even as the credit card debt collection market has grown more concentrated. After years of decline, employment in the third-party debt collection industry rose from 130,000 in 2019 to roughly 138,000 U.S. workers in 2022.[64] However, the industry continues to consolidate, with the number of debt collection enterprises declining by 28 percent and the number of debt collection establishments declining by 26 percent from 2014 to 2022.[65] Major issuers surveyed reported using 30 unique third-party debt collection agencies in 2022, down significantly from 55 unique agencies in 2020.[66] The number of debt buyers utilized by these issuers decreased slightly to 15 unique buyers in 2022 from 17 unique buyers in 2020.

[62] CCP.

[63] *Id.*

[64] See Debt Collection Agencies in the US, supra note 60.

[65] *Id.*

[66] MMI.

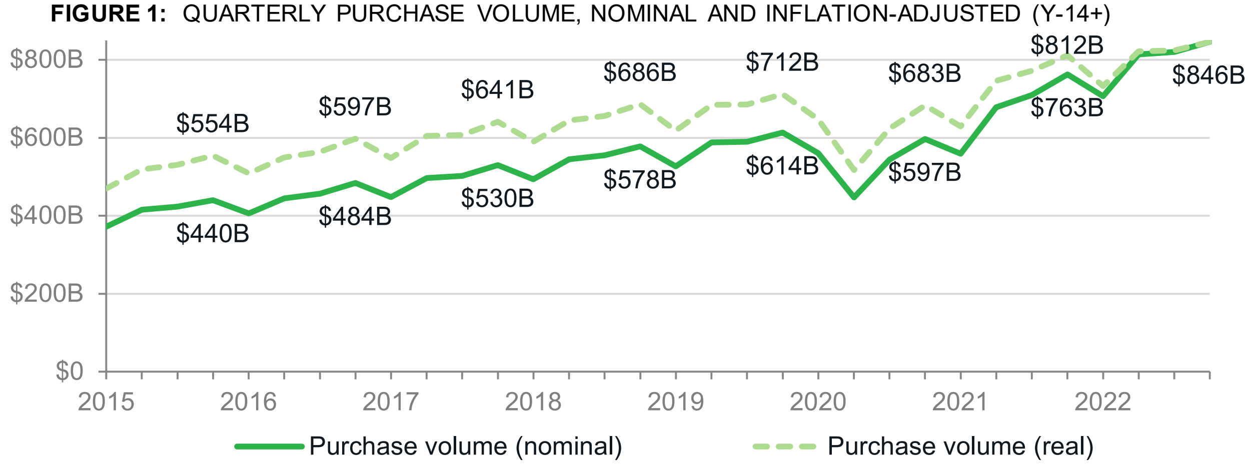
3. Use of credit

This chapter reviews several measures of consumers' use and repayment of credit cards. First, this section describes the size of the market by spending and debt levels. In terms of purchase volume and nominal debt levels, the credit card market has never been so large. By other indicators such as inflation-adjusted total balances and average debt per cardholder, the market has just returned to highs last seen in late 2019. Second, this section looks at repayment through total payments, payment rates, and revolving behavior. Last, this section reports on non-payment by examining delinquency and charge-off rates. Many of these indicators point toward consumers' increased ability to make larger and more timely payments on their outstanding credit card balances in 2020 and 2021. While measures like revolving and delinquency rates increased in 2022, they remained below pre-pandemic norms.

3.1 Purchase volume

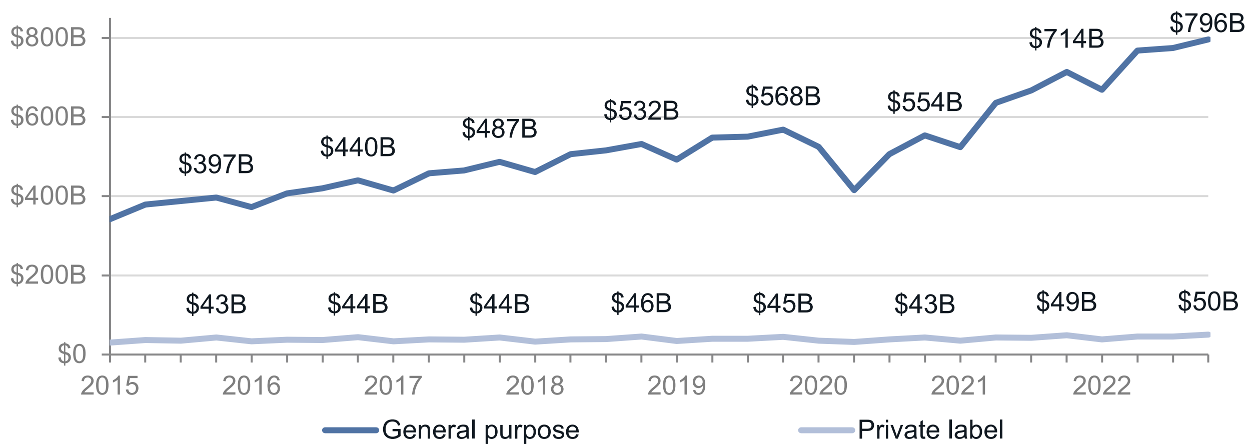
Credit card purchases reached new highs following a pullback during the first year of the COVID-19 pandemic. Total purchase volume for Y-14+ issuers in 2022 was $3.2 trillion, a 48 percent increase from 2020 levels. Purchase volume exceeded its pre-pandemic level starting in the second quarter of 2021 and continued to grow following a seasonal pattern, even after adjusting for inflation, as shown in Figure 1.

FIGURE 1: QUARTERLY PURCHASE VOLUME, NOMINAL AND INFLATION-ADJUSTED (Y-14+)



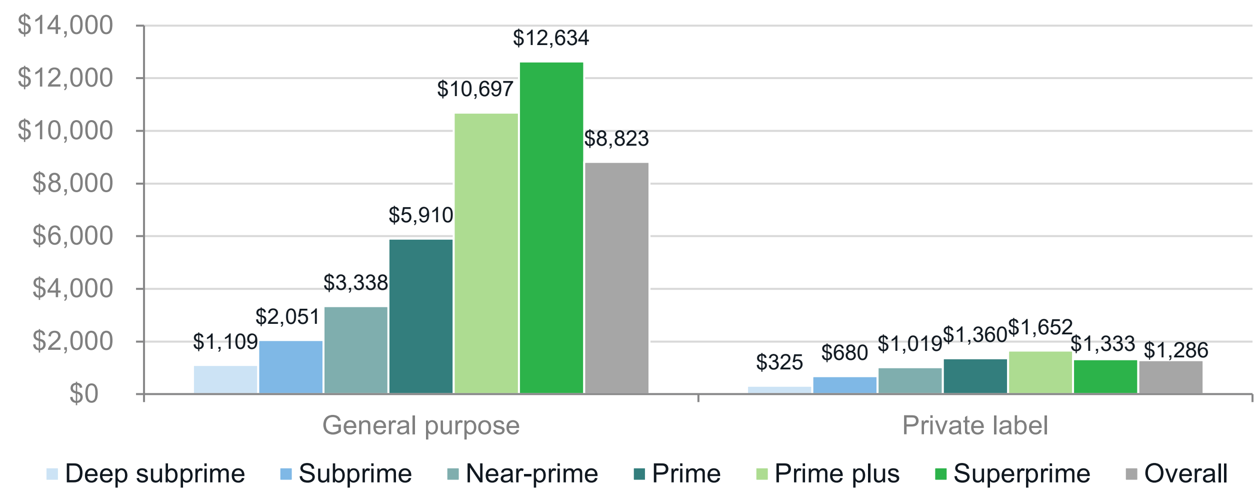
Most of the increase in spending was on general purpose card accounts, as private label card purchases remained relatively low. General purpose card purchase volume for issuers in the CFPB's sample increased to $3 trillion in 2022, 50 percent higher than in 2020. In contrast, private label card spending is much lower at $180 billion in 2022 and has remained relatively flat since at least 2015, such that private label card spending represents a declining share of overall card purchase volume.

FIGURE 2: QUARTERLY PURCHASE VOLUME (Y-14+)



Consumers with higher credit scores generally spend more on their cards. Average general purpose purchase volume per account ranged from about $1,100 annually for cardholders with deep subprime scores to $10,700 and $12,600 for cardholders with prime plus and superprime scores, respectively. Private label purchase volumes followed a similar trend, with the exception of superprime cardholders, who spent less on such cards than cardholders with scores between 660 and 800.

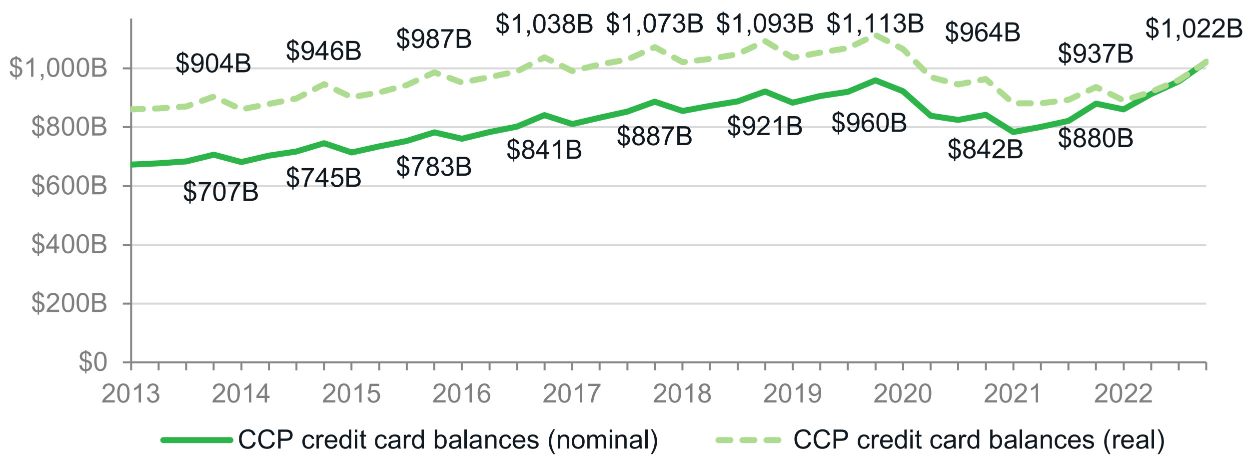
FIGURE 3: ANNUAL AVERAGE PURCHASE VOLUME PER ACCOUNT, 2022 (Y-14+)



3.2 Debt levels

Consumer credit card debt, which had been increasing every year since 2011, suddenly reversed course following the onset of the pandemic but has since resumed steady growth. Credit card debt peaked in late 2019 at $960 billion, and by the first quarter of 2021, consumers had reduced card balances to $784 billion. However, by the end of 2022, debt surpassed $1 trillion.[67] For major credit card issuers, 82 percent of total debt is revolving; the remaining share is repaid by the statement due date.[68] While nominal debt levels rose in 2022, credit card debt at the end of that year was comparable to 2017 levels when adjusted for inflation, as shown in Figure 4, even as the number of cardholders has continued to rise.[69]

FIGURE 4: QUARTERLY CYCLE-ENDING BALANCES, NOMINAL AND INFLATION-ADJUSTED (CCP)



Average debt per cardholder in 2022 returned to pre-pandemic levels following a decline in 2020 and 2021. The average cardholder carried $5,288 in total credit card debt across general purpose and private label cards at the end of 2022. This was a 24 percent increase from 2021 lows and marked a return to late-2019 levels. Average balances increased for cardholders in all credit score tiers in 2022 to end roughly in line with each tier's average balance from late-2019.

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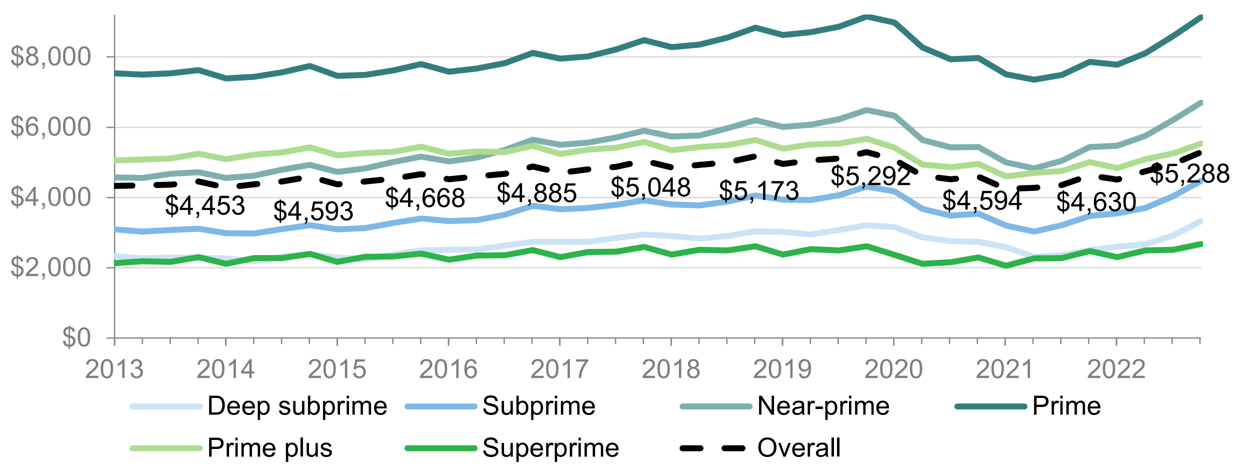
[67] Other government agencies may use different data providers or methodologies for estimating total debt. For example, the Federal Reserve Bank of New York reported credit card balances of $986 billion in the fourth quarter of 2022, *see* Fed. Rsrv. Bank of New York, *Quarterly Report on Household Debt and Credit 2022: Q4 (Feb. 2023)*, https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2022Q4.

[68] Y-14+. Some amount of debt is incurred and subsequently repaid without appearing on a statement, which is unobservable and therefore not included in this calculation.

[69] We reported 181 million cardholders at year-end 2020. See Section 1; 2021 Report, *supra* note 3, at 25.

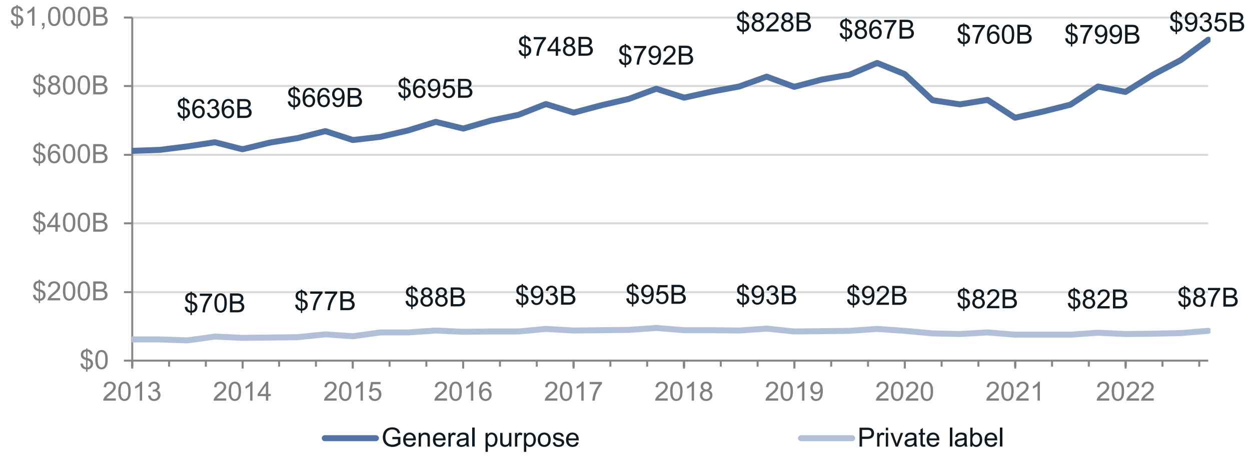
Cardholders with prime scores remain the most indebted, with average balances reaching $9,135 at the end of 2022.

FIGURE 5: QUARTERLY AVERAGE PER-CARDHOLDER CYCLE-ENDING BALANCES (CCP)



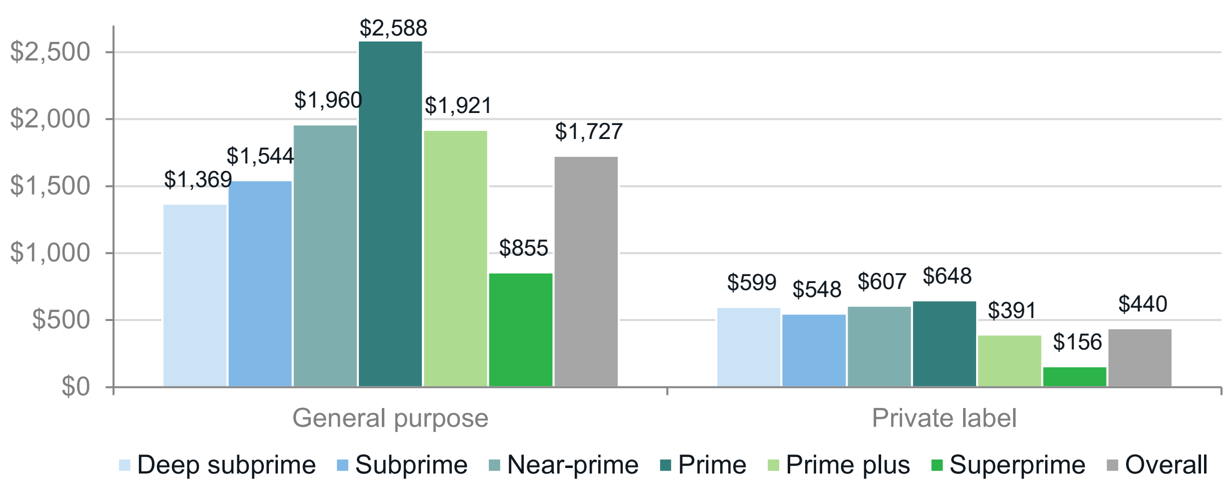
Growth in debt carried on general purpose cards primarily drove the rise in credit card balances during 2022, while private label balances remained relatively low. General purpose credit card debt declined sharply in 2020, reversing a long-term trend of rising balances. By the fourth quarter of 2022, however, general purpose credit card debt rebounded to $935 billion, above the $867 billion mark reached in the fourth quarter of 2019. The total dollar value and market share of private label balances remain roughly one tenth of those on general purpose card accounts. Following a ten percent decline in 2020 and no change in 2021, private label credit card debt grew somewhat in 2022 but remained below nominal pre-pandemic levels at $87 billion in the fourth quarter of 2022.

FIGURE 6: QUARTERLY CYCLE-ENDING BALANCES (CCP)



Average balances per account are higher for general purpose cards than private label cards, with a wide range of values across credit scores. In 2022, average cycle-ending balances were $1,727 per general purpose account and $440 per private label account. As shown in Figure 7, average general purpose card balances are highest for cardholders with prime credit scores at $2,588 per general purpose card account, and lowest for those with superprime scores at $855 per general purpose card account. Prime plus cardholders average noticeably higher balances than superprime cardholders despite lower spending, given differences in payment rates. Private label balances tend to be much lower and demonstrate less differentiation by credit score tier than general purpose cards, but prime plus and superprime balances remain lower than average balances for private label cards in other score tiers at $391 and $156 per private label card, respectively.

FIGURE 7: AVERAGE PER-ACCOUNT CYCLE-ENDING BALANCES, END OF YEAR 2022 (CCP)

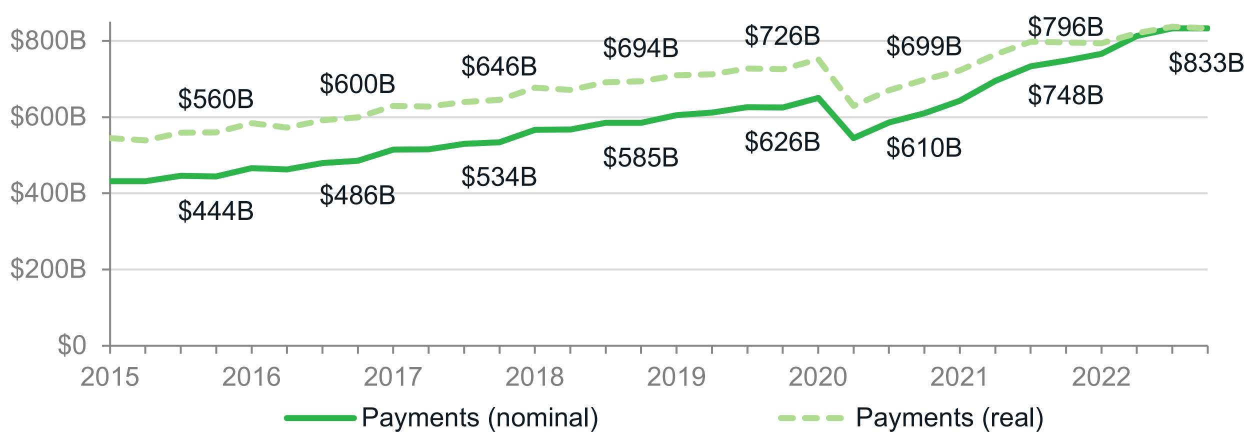


3.3 Repayment

3.3.1 Payments

Consumers are making larger credit card payments than ever before. In 2022, consumers paid a record $3.2 trillion for credit card debts, roughly equal to total purchase volume that year. [70] Repayment has risen steadily following a dip in the first quarter of 2020 and has now surpassed pre-pandemic levels on an inflation-adjusted basis, as shown in Figure 8.

FIGURE 8: QUARTERLY PAYMENTS, NOMINAL AND INFLATION-ADJUSTED (Y-14+)



General purpose cardholders paid a much greater share of balances in 2021 and 2022 than they did historically, while consumers continued to repay debt on private label cards at typical rates. Payment rates provide an additional measure of consumer reliance on credit cards as a source of credit. [71] The payment rate is the share of total cycle-beginning balances paid that cycle. [72] General purpose card repayment averaged 40 percent of balances in 2021 and 2022, up from pre-pandemic figures of roughly 30 percent. Private label payment rates remained in line with historical averages of 12 to 15 percent of balances.

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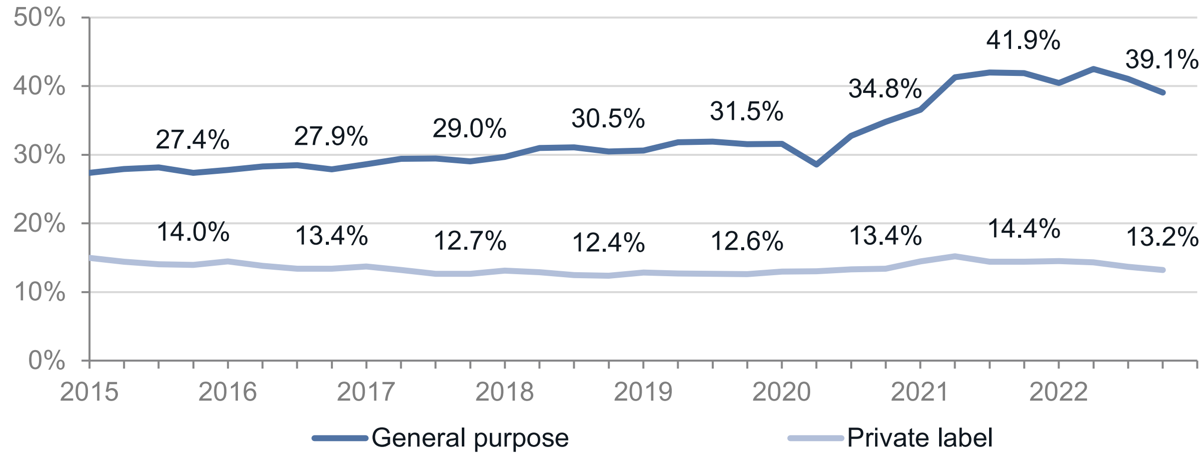
70 *See* Section 3.1 for more information regarding purchase volume.

71 Payment measures cannot be shown at the consumer level because the CCP does not contain payment data. The Y-14+ is used instead for these views.

72 A payment rate of 100 percent corresponds to all cycle beginning account balances being paid in full, and a payment rate of zero percent indicates that no cardholders are paying any of a credit card bill, even in part. Consumers can have a payment rate greater than 100 percent where they pay off new purchases prior to the end of the billing cycle in addition to paying off existing balances.

FIGURE 9: QUARTERLY CREDIT CARD PAYMENT RATES (Y-14+)



Payment rates increase with cardholder credit scores and tend to be higher on general purpose cards than private label ones. Credit scoring models' use of utilization, or balances as a share of available credit line, [73] partly explains the positive relationship between scores and payment rates: higher payment rates tend to reduce revolving debt, lower utilization, and increase scores. As shown in Figure 10, cardholders with prime and below scores made payments equal to less than one fifth of their balances in 2022, with lower payment rates for cardholders with lower scores and users of private label cards. However, there is differentiation even between cardholders with above-prime scores. General purpose cardholders with scores above 800 repay roughly the entire balance on their cards each month compared to less than half of the balance for those with scores from 720 to 799. Superprime private label cardholders show nearly twice the payment rate of prime plus. One explanation for lower private label payment rates may be the prevalence of deferred interest promotions, which incentivize consumers to pay less than the full balance until the promotion nears expiry.

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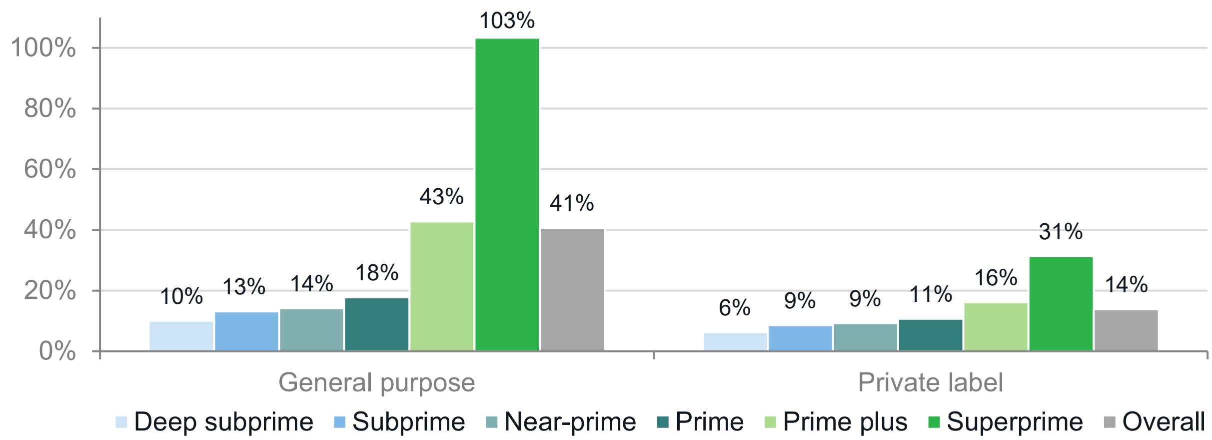
[73] Ficoscore.com, *Frequently Asked Questions About FICO® Scores*, (2022), https://www.ficoscore.com/ficoscore/pdf/Frequently-Asked-Questions-About-FICO-Scores.pdf.

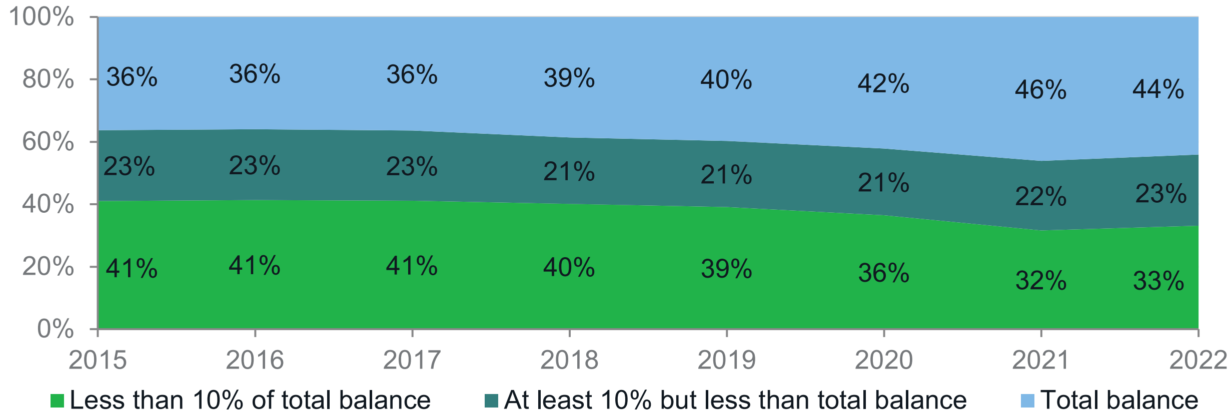
FIGURE 10: PAYMENT RATE, 2022 (Y-14+)



While the share of cardholders who pay the total balance on their cards each month has risen, one third continue to pay less than 10 percent of their balance in a given cycle. More than two-fifths of accountholders with a balance pay their balances in full, up two percentage points from our last report. Roughly one-third pay less than 10 percent of their balances, a figure that has declined six percentage points since 2019. Figure 11 further shows that 23 percent pay between 10 percent and 100 percent of their balances in a typical month, roughly in line with the historical average. Consumers tend to display consistent transacting and revolving activity over time, which makes the shifts in repayment behavior observed in recent years particularly notable. One explanation may be improving financial conditions for some cardholders, perhaps due to pandemic-era stimulus policies. [74]

74 For more information regarding financial conditions for consumers during the pandemic, see Scott Fulford, *The Pandemic Paradox: How the COVID Crisis Made Americans More Financially Secure*, (2023), Princeton University Press.

FIGURE 11: ANNUAL SHARE OF ACCOUNTS BY PAYMENT AMOUNT (Y-14)



3.3.2 Minimum payment

Paying only the minimum payment due each month can greatly increase the total cost and duration of credit card debt; as such, the CARD Act mandated including the cost of making only the minimum payment on monthly billing statements.[75] However, as discussed in Section 6.7.1, more consumers are making payments exclusively online or through automatic payments, and consequently they may not have an opportunity to review mandatory disclosures.[76] For many consumers relying solely on digital portals, the calculation behind their minimum payments due and the consequences of repeatedly making only the minimum payment may not be apparent.

About 13 percent of general purpose and 17 percent of private label accounts pay only the minimum payment due each month.[77] Cardholders with subprime scores are more likely to make exactly the minimum payment than those with higher scores who often pay more than the minimum. Cardholders with deep subprime credit scores have higher rates of delinquency and at times may pay nothing at all. As shown in Figure 12, for general purpose cards, over 20 percent of cardholders with below-prime scores pay only the minimum payment due each month, while less than 10 percent of cardholders with prime plus and superprime scores pay only the minimum payment due. For private label cards, over 20 percent of consumers with

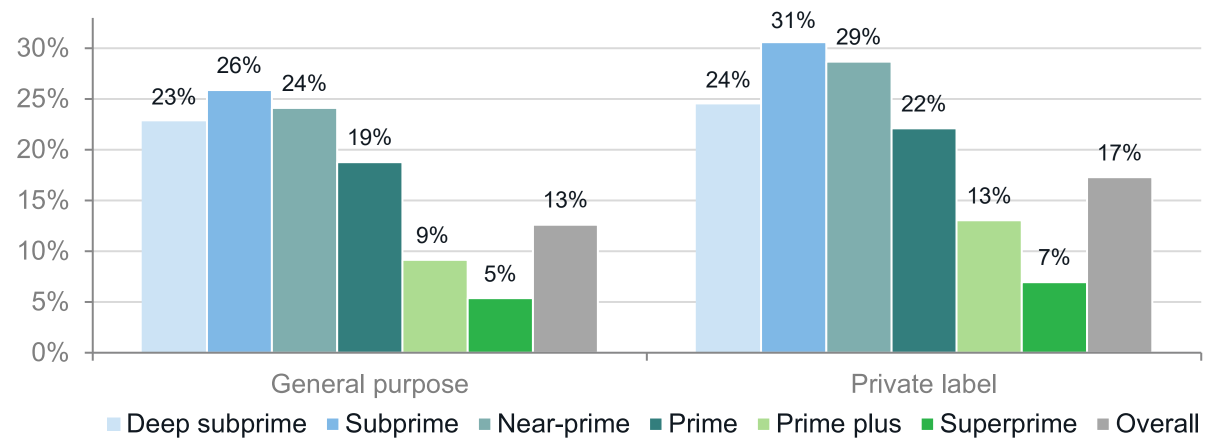
[75] 12 CFR 1026.7(b)(12).

[76] *See* Comment Letter CFPB-2023-0009-0090.

[77] The minimum payment due is defined as the total amount which a consumer must pay to avoid delinquency and typically includes any amount past due and the dollar value of the minimum payment calculation described in this Section. For the purposes of this report, making the minimum payment includes accounts with an actual payment amount in a given cycle between this amount and the next dollar, rounding-up. It excludes accounts with a minimum payment of zero but includes those where the minimum payment equals the cycle beginning balance.

below-prime scores pay only the minimum payment due, while this number drops to under 15 percent for consumers with prime plus or superprime scores.

FIGURE 12: SHARE OF ACCOUNTS MAKING JUST THE MINIMUM PAYMENT DUE, 2022 (Y-14+)



Generally, issuer minimum payment calculations include multiple conditionalities that, together, determine how much an account holder must pay to avoid late fees. [78] Most minimum payment calculations stipulate that consumers will pay the highest of two or three options, a numerical floor, or a percentage of the cycle-ending balance plus interest and fees, such as "$35 or three percent of the balance, whichever is higher." Of those with publicly available information on the process for calculating minimum payments, all issuers set fixed floors on the dollar value of minimum payments. These floors varied from $20 to $41, if greater than the total balance, at the time of review in 2023: the most common floor was $35—a $10 increase since 2015. [79] All issuers included in this analysis calculated the minimum payment as a percentage of the total statement balance, with costs added separately. Most issuers set minimum payment at one percent of the balance, with at least one as high as three percent. Issuers typically add the sum of finance charges, fees, and past due amounts onto this percent of the cycle-ending balance to arrive at the minimum payment. Most issuers explicitly disclosed that minimum payments would not exceed the cycle-ending balance, or the new balance as of the statement date.

Minimum payment policies vary across issuers, across cards by the same issuer, and even across cardholders with different measures of issuer-defined creditworthiness with the same card. Issuers sometimes tie minimum payment amounts to a consumer's repayment history, for

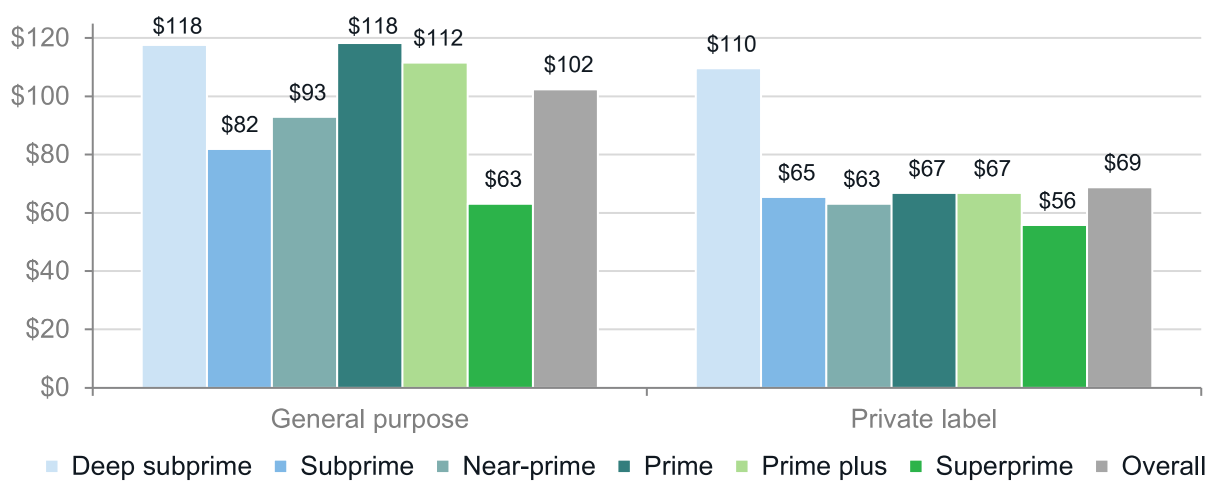
[78] 15 out of 18 credit card issuers analyzed describe their minimum payment calculations in their publicly-available agreements; two instead referred cardholders to their monthly statement or account opening disclosure for that information.

[79] 2015 Report, at 130.

example automatically increasing the minimum payment amount floor if the consumer has at least one missed payment in the previous six billing cycles.[80] While minimum payments that represent a higher share of the total balance may help some cardholders pay less in finance charges over time, this higher minimum payment may cause some cardholders to change their likelihood of borrowing and for others to incur late fees, risk delinquency, and hurt their credit scores.[81]

The value of the average minimum payment for revolving accounts in 2022 was $102 for general purpose cards and $69 for private label cards. The average minimum payment has increased both overall and for all credit tiers from 2021 levels of $94 for general purpose cards and $66 for private label cards. Much of the increase for consumers with prime, prime plus, and superprime scores is due to growing balances and associated finance charges. However, a large share of the increase in the monthly payment burden for consumers with subprime and deep subprime scores is indicative of increasing delinquency rates, as total minimum payments due typically require the payment of any amount past due and assessed late fees. As shown in Figure 13, the average minimum payment due was higher for consumers with deep subprime scores than for all other tiers but prime. More notably, for private label cards in 2022, the average minimum payment due for consumers with deep subprime scores was $43 and $54 higher than for consumers with prime plus and superprime scores, respectively.

FIGURE 13: AVERAGE MINIMUM PAYMENT DUE, REVOLVING ACCOUNTS, 2022 (Y-14+)



80 CFPB, *Credit Card Penalty Fees (Regulation Z) Proposed Rule*, (Feb. 1, 2023), https://www.consumerfinance.gov/rules-policy/rules-under-development/credit-card-penalty-fees-regulation-z/.

81 Brookings, *Revolving debt's challenge to financial health and one way to help consumers pay it off*, (June 7, 2022), https://www.brookings.edu/research/revolving-debts-challenge-to-financial-health-and-one-way-to-help-consumers-pay-it-off/.

For revolving cardholders, the minimum payment as a share of cycle-ending balances was higher for consumers with lower scores. Minimum payments accounted for, on average, three percent of revolving credit card debt each month for general purpose cards from 2015 to 2022; however, only a portion of these payments goes to repaying the principal balance. In most cases, issuers apply the minimum payment to the accrued interest, fees, and any delinquent balances first, and then they apply what is left over to the remaining statement balance.[82] For cardholders with subprime and deep subprime scores, who tend to have smaller balances than those in higher credit tiers, their minimum payments represented a larger percentage, five and nine percent, respectively, of revolving credit card debt in 2022. For private label cards, minimum payments accounted for five percent of overall credit card debt in 2021 and 2022 and reached 12 percent for accountholders with deep subprime scores.

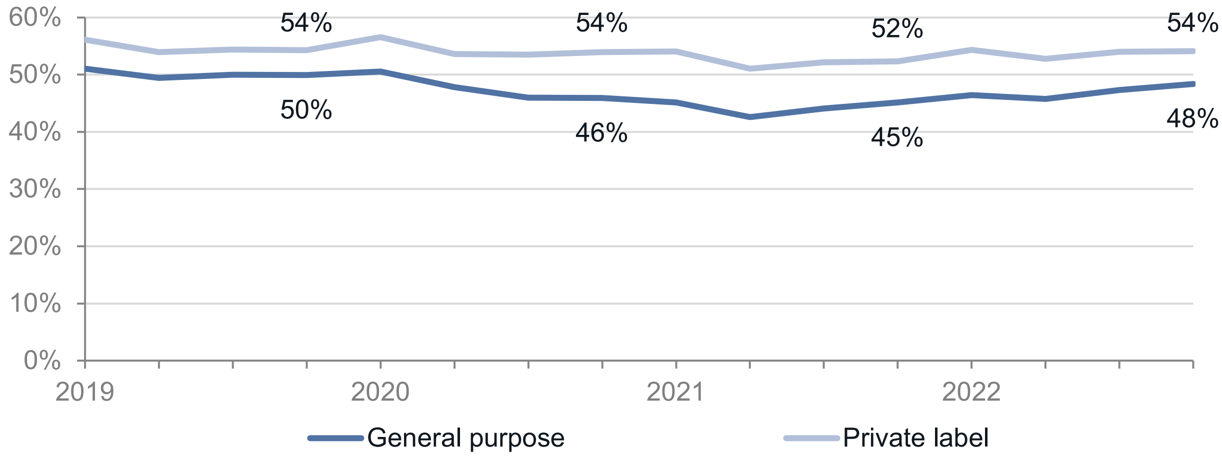
3.3.3 Revolving rate

Over the past two years, the share of active accounts that revolved a balance from one month to the next ("revolving rate") has gradually risen to near pre-pandemic levels.[83] The share of accounts where cardholders pay less than the statement balance on a general purpose card has risen steadily since its low point of 43 percent in the second quarter of 2021, reaching 48 percent in the fourth quarter of 2022. In 2019, the share of general purpose accounts revolving a balance ranged from 49 to 51 percent. Private label cardholders exhibited a similar but less-pronounced trend, with slightly higher revolving rates for active accounts in 2022 at roughly 54 percent, equal to the share observed in 2019. The higher share of revolving for private label cards may be due to some cardholders taking advantage of zero-interest or deferred-interest promotions, which are more common on this type of card.

[82] The minimum payment itself can be applied to the issuers' choice of balances. Amounts in excess of the minimum payment must be applied to balances with the highest APR. *See* 12 CFR 1026.53.

[83] The methodology for calculating share of accounts revolving has changed from when the CFPB reported on this in 2021. In this report, "Revolving" accounts continue to be defined as having a cycle beginning balance larger than the sum of payments in each monthly cycle, but the denominator now includes all open and active accounts. Discretion is advised in comparing reported revolve rates to figures from prior reports, as the change in methodology results in a lower reported share of active accounts revolving but does not indicate a significant change in consumer card balance revolving practices.

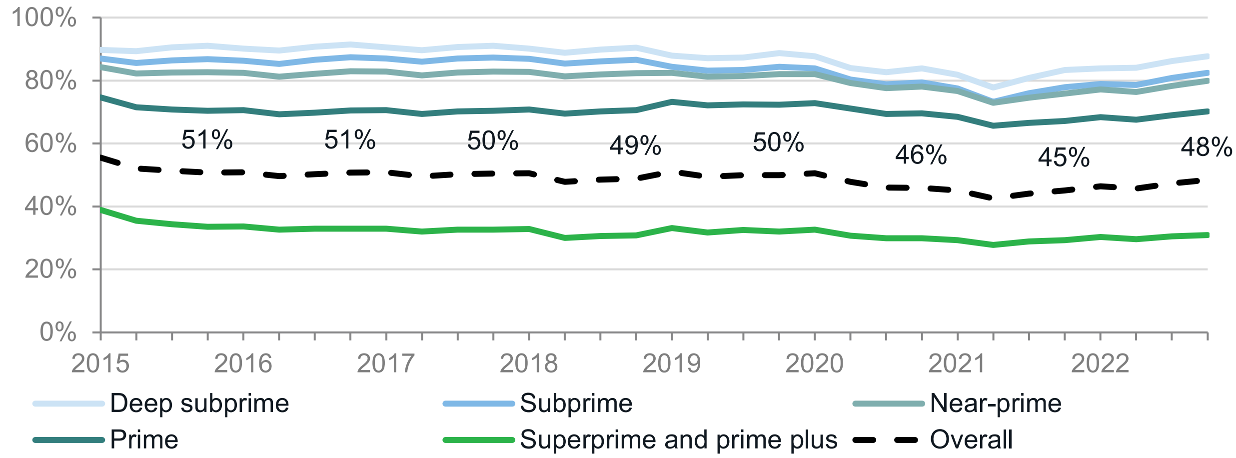
FIGURE 14: QUARTERLY SHARE OF ACTIVE ACCOUNTS REVOLVING (Y-14+)



Cardholders in all credit score tiers reduced revolving rates during the pandemic but have steadily returned to pre-pandemic levels since around the time of the last economic stimulus payment in the second quarter of 2021. Revolving rates began to fall starting in the second quarter of 2020 and continued to fall for one year before gradually rising toward pre-pandemic levels. Given the timing, this trend likely reflects the impact of government financial relief enacted to offset the financial hardship imposed by COVID-19 and reduced consumer spending, and the impact of the end of those two trends. For reference, the most recent Economic Impact Payment was issued in March 2021, right around the time general purpose revolving rates fell to their lowest point in recent years. [84] Since broader pandemic relief measures such as enhanced unemployment payments alongside eviction and foreclosure moratoriums expired, and consumer spending returned to previous levels, general purpose cardholders in all credit score tiers have gradually returned to pre-pandemic revolving rates, with about half of accounts carrying a balance from month to month.

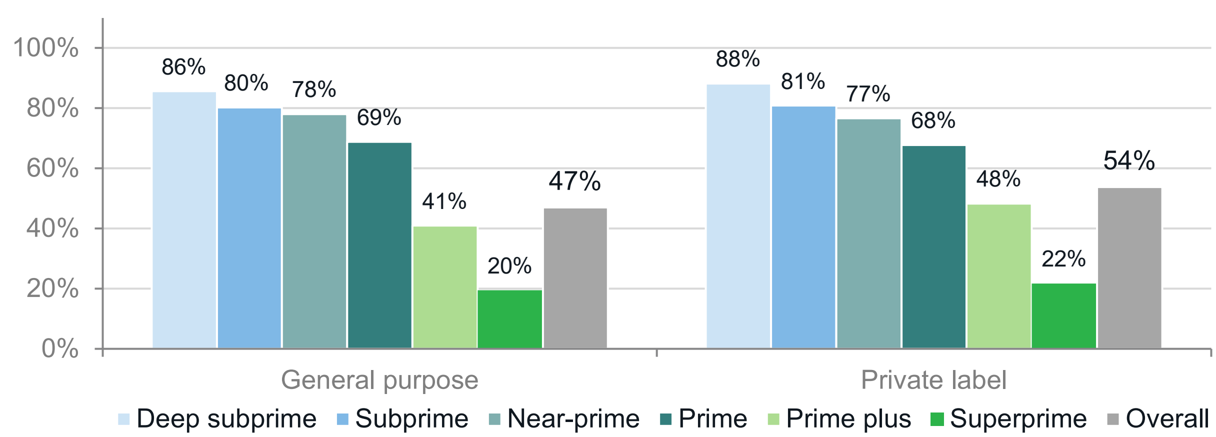
[84] Pandemic Oversight, *Update: Three rounds of stimulus checks. See how many went out and for how much.*, (last updated Feb. 9, 2023), https://www.pandemicoversight.gov/news/articles/update-three-rounds-stimulus-checks-see-how-many-went-out-and-how-much.

FIGURE 15: QUARTERLY SHARE OF ACTIVE ACCOUNTS REVOLVING, GENERAL PURPOSE (Y-14+)



Balance carrying behavior by cardholders is highly correlated with credit score and was similar across general purpose and private label cards, but this report also finds that prime plus cardholders are more than twice as likely to carry a balance than superprime cardholders. While the category "superprime" previously included cardholders with any credit score above 720, in this report we split the category into "prime plus" at 720 to 799 and "superprime" at 800 plus, which has enabled us to illustrate differences in card usage among groups of cardholders sometimes considered quite similar in behavior. In Section 3.2, we noted that prime plus cardholders average noticeably higher cycle-ending balances than superprime cardholders. Card revolving behavior is also dissimilar between the two groups, as shown in Figure 16. This difference holds for both general purpose and private label accounts.

FIGURE 16: SHARE OF ACTIVE ACCOUNTS REVOLVING, 2022 (Y-14+)



Surveys conducted in 2021 showed that consumer-level revolving was low relative to prior years. While the CFPB can only quantify the share of revolving *accounts*, the Survey and Diary of Consumer Payment Choice can estimate the share of *consumers* who revolve. At the time of that survey in October 2021, 45.7 percent of consumers with a credit card reported carrying a balance at some point in the last 12 months, down more than five percentage points from 2020, while 41.6 percent reported carrying a balance within the last month, up one percentage point from 2020.[85] Federal Reserve Board data from the annual Survey of Household Economics and Decisionmaking (SHED) support this conclusion, with 48 percent of survey cardholders in 2021 reporting that they never carried an unpaid balance during the preceding 12 months, unchanged from 2020 levels.[86]

3.4 Non-payment

3.4.1 Delinquency

Credit card delinquency has been rising since the expiration of COVID-19 related financial relief. Continuing high inflation and interest rates may exacerbate this trend.[87] The share of balances 60 or more days delinquent reached a post-Great Recession high point around the first quarter of 2020 for general purpose and private label cards at 2.4 percent and 4.4 percent, respectively.[88] During the ensuing two years of the pandemic, delinquency rates for both card types declined to their lowest point in mid-to-late 2021, marking the lowest share of delinquent

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85 *See* Fed. Rsrv. Bank of Atlanta, *2021 SDCPC Tables* (Jan. 2022), https://www.atlantafed.org/-/media/documents/banking/consumer-payments/survey-diary-consumer-payment-choice/2021/tables_dcpc2021.pdf.

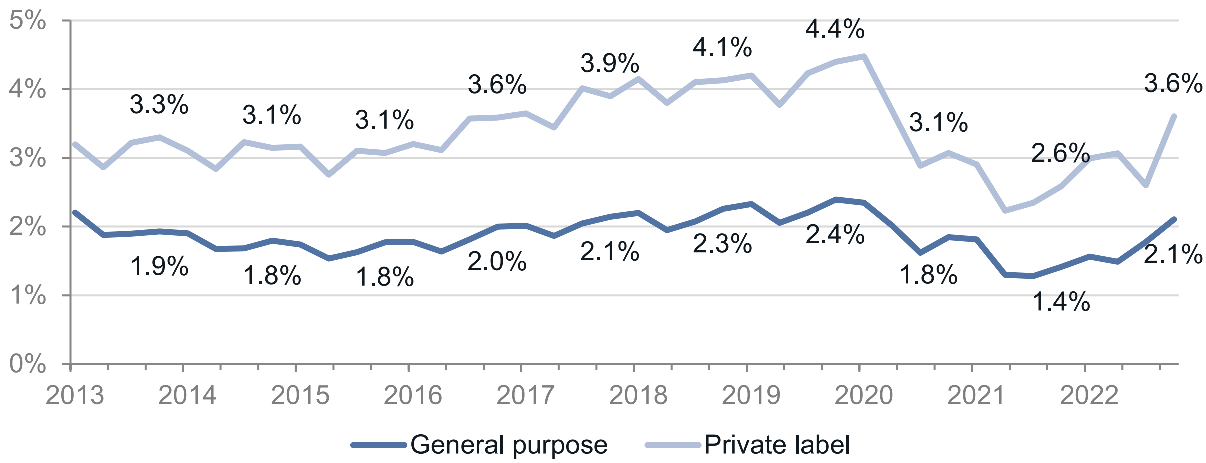
86 *See* Bd. Of Governors for the Fed. Rsrv. Sys., *Report on the Economic Well-Being of U.S. Households in 2021*, at 49 (May 2022), https://www.federalreserve.gov/publications/files/2021-report-economic-well-being-us-households-202205.pdf. *See also* Bd. Of Governors for the Fed. Rsrv. Sys., *Report on the Economic Well-Being of U.S. Households in 2020*, at 42 (May 2021), https://www.federalreserve.gov/publications/files/2020-report-economic-well-being-us-households-202105.pdf.

87 Commenters to the CFPB's RFI and public press note the trend of increasing delinquency. One RFI commenter wrote that they expect that "as interest rates and prices remain high, credit card balances and delinquency will continue to go up" with lasting effects on consumer well-being. This commenter suggested the CFPB "continue to research how it can influence lowering credit card balances and delinquency reduction, including more regulation on interest rates and credit limits and promoting financial education." *See* New York City Department of Consumer and Worker Protection Comment Letter, at 3. Another RFI industry commenter wrote "Since June 2021, credit cards have seen increasing delinquency at RBFCU. As of August 2022, this has stabilized for our credit union…" *See* Randolph-Brooks Federal Credit Union Comment Letter, at 2.

88 When a consumer fails to make a required minimum payment by the due date, the credit card account becomes "delinquent." Delinquency rates are calculated as the share of accounts or balances in a given delinquency status grouping based on the number of days past the due date, each associated with different consequences for a cardholder like late fees after one day, negative credit score impacts after 30 days, penalty pricing after 60 days, etc. We rely on 60 plus day delinquency here, as in previous reports. Because credit scores are heavily influenced by delinquency and charge-offs, these measures are not shown by credit score tiers.

balances observed in our data. [89] Since the final Economic Impact Payment was issued in the second quarter of 2021, delinquent balances have crept back up and now approach pre-pandemic levels. As of the fourth quarter of 2022, 2.1 percent of general purpose card balances and 3.6 percent of private label card balances were 60 or more days delinquent. Recent data from the New York Federal Reserve show that 90+ day credit card delinquency transitions are rising for younger borrowers, many of whom will soon be required to begin repaying student loan debt once the more than three-year pause on repayment ends. [90]

FIGURE 17: QUARTERLY SHARE OF BALANCES 60 OR MORE DAYS DELINQUENT (CCP)



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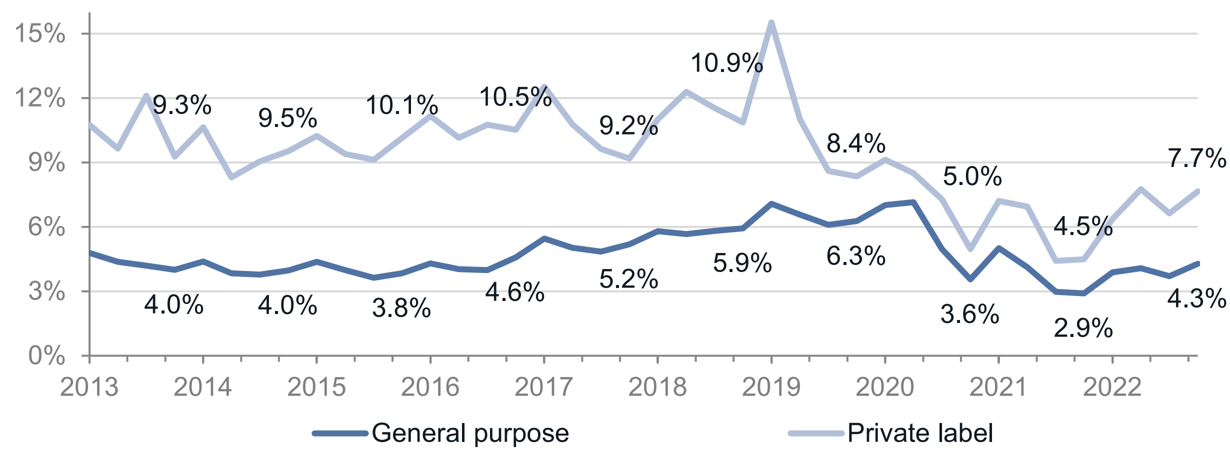
89 *See* 2021 Report, *supra* note 3, at 43. Other measures of consumer delinquency like the Federal Reserve Board's "Charge-Off and Delinquency Rates on Loans and Leases at Commercial Banks" suggest it reached its lowest level since at least 1991, *see* https://www.federalreserve.gov/releases/chargeoff/delallnsa.htm (last accessed June 7, 2023).

90 *See* Fed. Rsrv. Bank of New York, *Quarterly Report on Household Debt and Credit 2023: Q1* (May 2023), https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2023Q1. The Wall Street Journal reported that "The expected restart of student-loan repayments...could add to pressure on younger borrowers, who are already falling behind on debt in an era of high inflation and rising interest rates..." Gabriel T. Rubin and Gwynn Guilford, *Student-Loan Bills Are Set to Come Due, Adding Pressure on Younger Americans*, Wall St. J. (Mar. 11, 2023), https://www.wsj.com/articles/student-loan-bills-are-set-to-come-due-adding-pressure-on-younger-americans-1738b6e0. *See also* Joe Pinsker, *Americans Are Falling Behind on Their Bills*, Wall St. J. (May 16, 2023), https://www.wsj.com/articles/credit-card-car-debt-payments-behind-decc1a22. *See also* Thomas Conkling and Christa Gibbs, *Office of Research blog: Update on student loan borrowers as payment suspension set to expire*, CFPB (June 7, 2023), https://www.consumerfinance.gov/about-us/blog/office-of-research-blog-update-on-student-loan-borrowers-as-payment-suspension-set-to-expire/.

3.4.2 Charge-off

Charged-off balances have begun to rise, following a decline during the pandemic, similar to delinquency trends.[91] General purpose charge-offs remained roughly consistent at around six percent of total balances annualized until mid-2020, declined to less than three percent by mid-2021, and then moderated to 4.3 percent by the fourth quarter of 2022. Private label charge-offs fell throughout 2020 and 2021 to 4.5 percent. Since mid-2021, private label charge-offs have risen to 7.7 percent but remain below their 2013 to 2019 average of around 10 percent. Similar to delinquency patterns, charge-off rates indicate many cardholders were able to avoid defaulting on their credit card debt during the pandemic. Some of this reduction in charged-offs balances may be due to pandemic-related support measures such as the enhanced unemployment insurance program, temporary forbearance programs, eviction moratoriums, and Economic Impact Payments.[92] Other potential explanatory factors may include rising wages and a strong labor market.[93]

FIGURE 18: QUARTERLY ANNUALIZED RATE OF GROSS OUTSTANDING BALANCES CHARGED OFF (CCP)



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[91] Accounts that remain delinquent for 180 days must be "charged off," meaning that the issuer can no longer consider the outstanding balance as an asset on its balance sheet. Delinquent accounts may have to be charged off prior to 180 days in certain circumstances as, for example, with a bankruptcy. *See* Off. of the Comptroller of the Currency, *Policy Implementation – The Guidance Attached to this Bulletin Continues to Apply to Federal Savings Associations*, OCC Bulletin 2000-20 (June 20, 2000), https://occ.gov/news-issuances/bulletins/2000/bulletin-2000-20.html.

[92] For more information regarding financial conditions for consumers during the pandemic, see Scott Fulford, *The Pandemic Paradox: How the COVID Crisis Made Americans More Financially Secure*, (2023), Princeton University Press.

[93] The White House, *The Labor Supply Rebound from the Pandemic*, (Apr. 17, 2023), https://www.whitehouse.gov/cea/written-materials/2023/04/17/the-labor-supply-rebound-from-the-pandemic/.

4. Cost of credit

This report assesses the costs of credit cards to cardholders using the CFPB's total cost of credit (TCC) measure.[94] First, we examine overall TCC as an annualized percentage of total debt over time. Next, we calculate costs both as a share of cycle-ending balances for *revolving* accounts and as a share of annual purchase volume for *transacting* accounts.[95] This section then looks separately at the main components of TCC—interest and fees. Building on the work of its predecessors, this report attempts to further quantify the costs and benefits of credit cards using a new measure: net cost of credit (NCC). NCC supplements TCC by subtracting the dollar value of rewards earned from credit costs as a share of either balances (for revolving accounts) or purchase volume (for transacting accounts).[96] Finally, we estimate the number of accounts in persistent debt, namely, cardholders whose annual costs on a credit card exceed the value of principal payments.[97]

This section focuses primarily on the costs to revolving cardholders compared to the benefits largely reaped by those who transact. Cardholders who revolve debt from one cycle to the next pay almost all interest charged, and three-fourths of total fees assessed, but earn less than 30 percent of the dollar value of earned rewards. Interchange fees generate enough revenue for issuers to cover the costs of points, miles, and cash back for both revolving and transacting

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94 The TCC measure was initially introduced in the 2013 Report and has since been used in the 2015 Report, 2017 Report, 2019 Report, and 2021 Report. *See* 2013 Report, *supra* note 3, at 19; 2015 Report, *supra* note 3, at 76; 2017 Report, *supra* note 3, at 72; 2019 Report, *supra* note 3, at 55; 2021 Report, *supra* note 3, at 47.

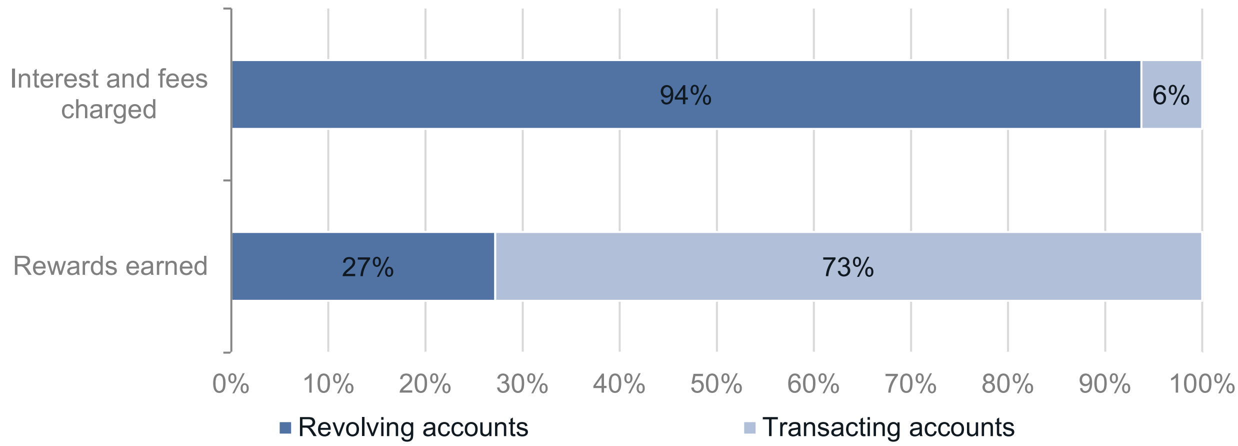
95 Cost data are from the Y-14 data, augmented by summary data that the CFPB collected from a range of issuers not included in that source. Y-14 data do not permit consumer-level cost reporting. For more detail on Y-14 data, *see* Section 1.2. Although this report uses broader cost data than previous iterations did, the CFPB does not claim that these data are representative of the market not covered by the data. Previously, transacting accounts included those with actual payments greater than a non-zero cycle beginning balance—for this report, we further limit transacting accounts to those with non-zero, non-negative cycle beginning balances.

96 Consumers primarily earn rewards on cards that transact on a network and earn interchange revenue for the issuing bank. The CFPB's findings on NCC apply to general purpose cards offered by mass market issuers. These findings are based on the MMI sample, and therefore may not generalize for smaller banks, credit unions, private label issuers, or issuers of cards primarily targeted toward consumers with subprime scores.

97 This report largely adopts methodology for identifying accounts in persistent debt as developed by the United Kingdom's Financial Conduct Authority in their study of the credit card market. *See* Financial Conduct Authority, *Credit card market study: persistent debt and earlier intervention* (Feb. 2018), https://www.fca.org.uk/publications/policy-statements/ps18-04-credit-card-market-study. However, while the UK regulators adopt a rolling 18-month window for identifying accounts in persistent debt, we limit our approach to each calendar year where most payments go to paying interest and fees.

accounts.[98] Yet, the costs borne by revolving accounts still support the operational costs transacting accounts incur on their "free" credit cards (for those without an annual fee).[99]

FIGURE 1: SHARE OF COSTS AND REWARDS BY ACCOUNT TYPE, 2022 (Y-14+, MMI)



4.1 Total cost of credit

TCC as a share of cycle-ending balances for both general purpose and private label card accounts declined through 2021 but then increased in 2022. The decline in costs in 2021 is largely attributable to a proportionally greater dip in interest and fees charged (the measure's numerator) than debt (its denominator).[100] General purpose cards' cost of credit of 17.8 percent in the fourth quarter of 2022 was the highest observed since at least 2015. Private label TCC increased at a slower rate and ended 2022 below 2019 levels. Fee costs remained a flat share of overall debt at three and six percent of general purpose and private label cycle-ending balances, respectively.

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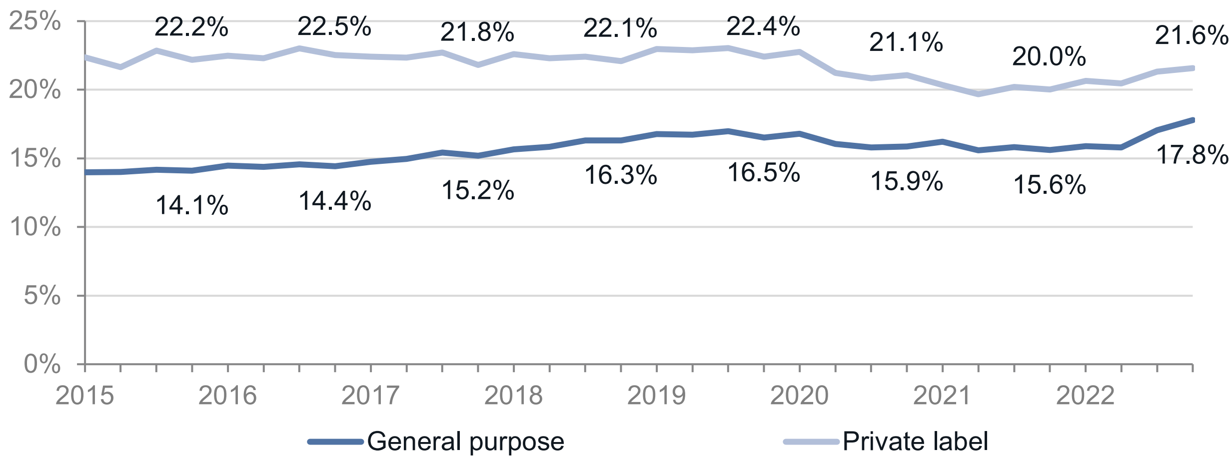
98 *See* Section 2.2.2.

99 A 2015 paper found that operational costs are $50 per account per year with about 15 percent going toward marketing and consumer acquisition expenses. Agarwal, et al, *Regulating Consumer Financial Products: Evidence from Credit Cards* (2015) at 122, https://www.jstor.org/stable/26372597.

100 *See* Section 3.2.

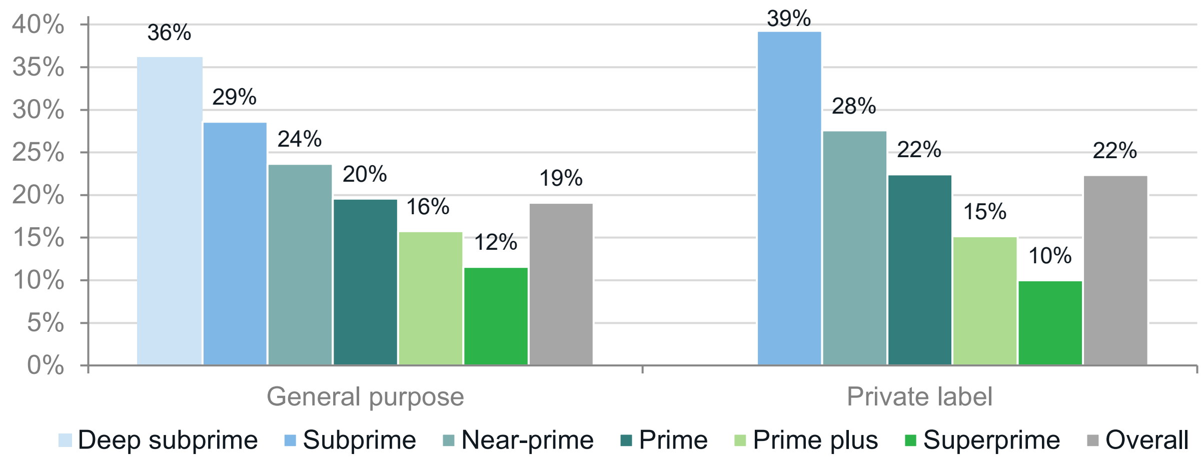
FIGURE 2: QUARTERLY TOTAL COST OF CREDIT, AS AN PERCENTAGE OF ANNUALIZED CYCLE-ENDING BALANCES (Y-14+)



Cardholders with subprime and deep subprime scores pay two to four times more in interest and fees per dollar of credit extended than those with scores above 720. Consumers with lower scores are charged higher interest rates to revolve a balance on a general purpose card under risk-based pricing. While private label card issuers charge similar APRs to cardholders across credit score tiers, costs for private label revolving accounts also generally increase as credit scores decrease because cardholders with above-prime scores receive more promotional offers and incur fewer fees.[101]

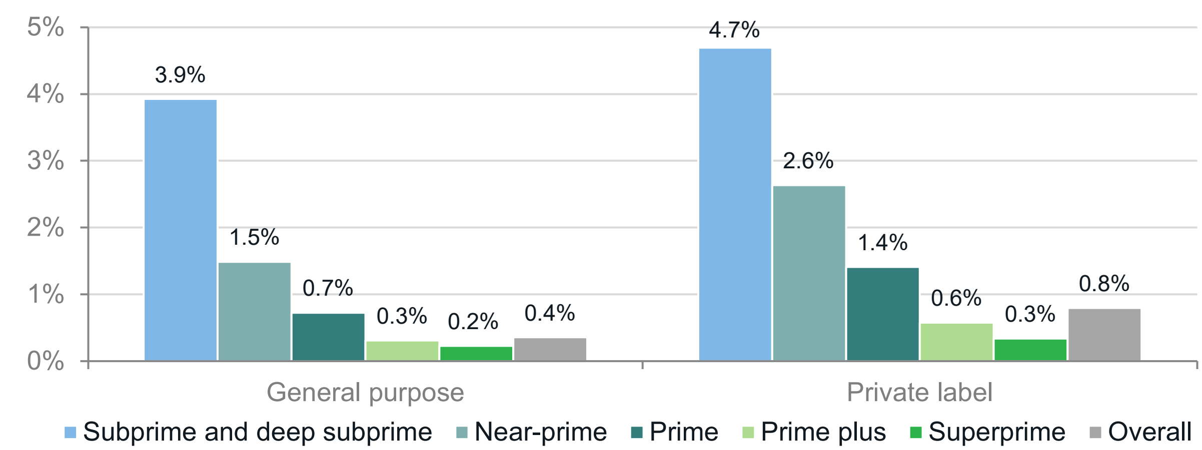
[101] At the end of 2022, the average APR on private label cards for cardholders in the superprime tier was 27 percent compared to 28 percent for those with deep subprime scores—a spread of one percentage point. For general purpose accounts, the average APR for those with deep subprime scores less the mean for those in the superprime tier was eight percentage points.

FIGURE 3: ANNUAL TOTAL COST OF CREDIT, AS A PERCENTAGE OF CYCLE-ENDING BALANCES, REVOLVING ACCOUNTS, 2022 (Y-14+)



For people who use their card only to transact (*i.e.*, they pay off each monthly statement in full), the average cost of using that credit card is less than one percent of total spending. For these "transacting" accounts, this report calculates TCC as a share of purchase volume, since cycle-ending balances are not an accurate reflection of account use for this group. Using this cost measure, there were no significant changes from 2015 through 2022. In contrast to revolving accounts, fees—particularly annual fees on general purpose accounts—represent nearly all costs for transactors. However, transacting accounts may still be assessed interest in some cases (*e.g.*, a cash advance or in the months after a late payment prior to the restoration of the grace period). TCC for transacting accounts is greater in lower credit tiers, but, notably, few cardholders with below-prime scores completely pay off their cycle-beginning balances in a given month, as discussed in Section 3.3.

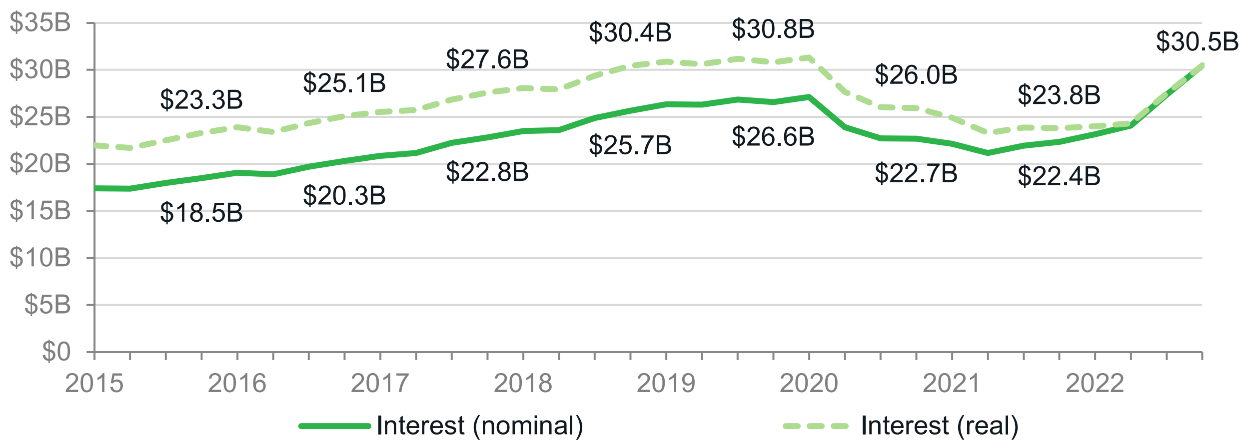
FIGURE 4: ANNUAL TOTAL COST OF CREDIT, AS A PERCENTAGE OF PURCHASE VOLUME, TRANSACTING ACCOUNTS, 2022 (Y-14+)



4.2 Interest

In aggregate, interest continues to be the primary cost of credit cards as it exceeded $100 billion in 2022 for the first time since 2019. Total finance charges dropped substantially to $96.4 billion in 2020 and $87.6 billion in 2021 with higher payment rates and lower APRs after declines in the prime rate. Interest assessed grew from mid-2021 through 2022 as purchase volume, balances, and APRs all rose starting in March 2021. The $30.5 billion in nominal interest assessed during the fourth quarter of 2022 was the highest amount since at least 2015, but real finance charges (those adjusted for inflation) were still below pre-pandemic levels at the end of the period studied.

FIGURE 5: QUARTERLY INTEREST ASSESSED (Y-14+)



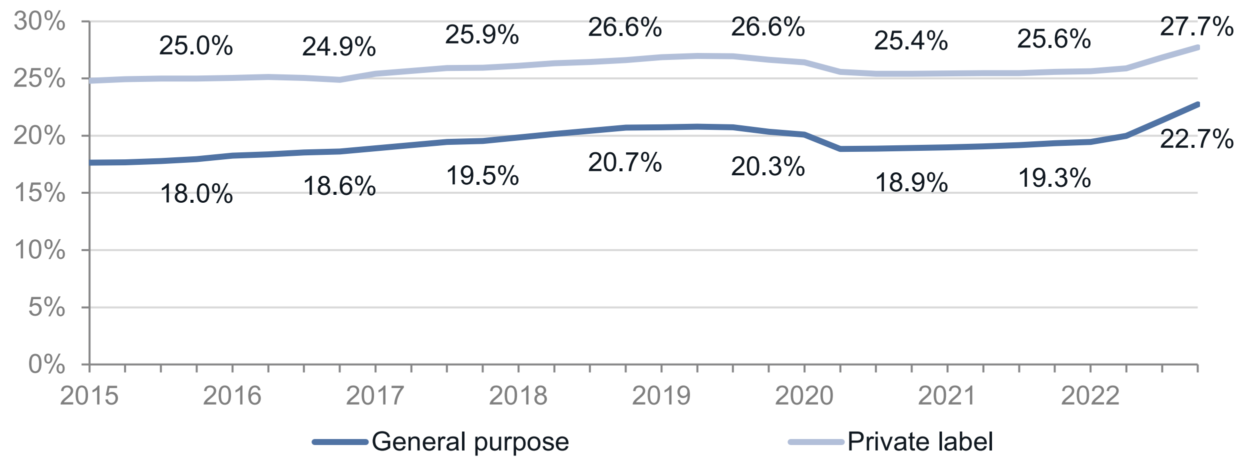
4.2.1 APR

After receding in 2020 and not changing in 2021, non-promotional retail APRs on credit cards reached new highs in 2022.[102] The average APR on private label cards at the end of 2022 was 27.7 percent, an increase of more than two percentage points from two years prior. Private label APRs remain much higher than general purpose card APRs. However, the gap between card types shrank over the past two years, as fewer private label cards are tied to a variable rate index and saw lower incidence of upward repricing. Average general purpose APRs rose to 22.7 percent from recent lows of 18.8 percent in mid-2020. Between March and December 2022, the prime rate, or the benchmark most commercial banks use to set cardholders' APRs, increased a

[102] For the purposes of this report, non-promotional APRs are defined as those greater than 4 percent. One of the most common comments from consumers to the RFI was that interest rates are now too high.

total of four percentage points.[103] These rate increases drove much of the recent sharp growth in APRs shown in Figure 6, because almost all general purpose account interest rates are tied to a variable rate index. As such, credit card APRs increase or decrease as the market interest rate rises or falls. However, changes in prevailing market interest rates do not entirely explain the rise in general purpose APRs since at least 2015.

FIGURE 6: QUARTERLY AVERAGE APR (Y-14+)



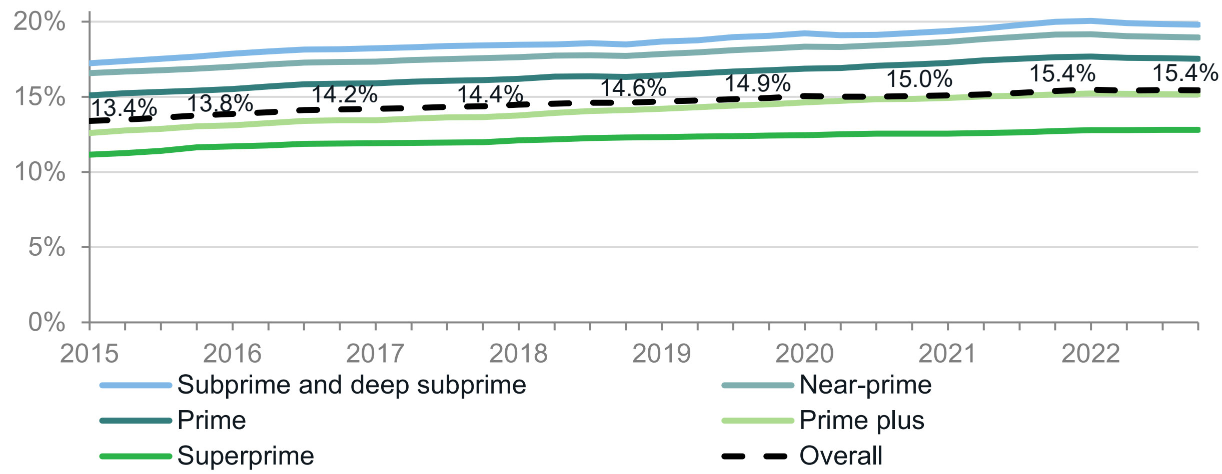
Issuers' growing margin (APR less the prime rate) represents a significant portion of the increase in the average APR in the Y-14 over the past eight years.[104] Despite delinquency and charge-off rates falling to historic lows in 2021 and 2022,[105] major issuers' margins on general purpose cards tied to the prime rate continued to climb, as shown in Figure 7, increasing two percentage points from 2015 through 2022. Greater access to credit for consumers with lower scores also does not explain the increasing margin, as the trend was apparent across all tiers during this time period. Cardholders with superprime scores saw margins grow 1.6 percentage points while other tiers' average APR margins increased 2.3 to 2.6 percentage points.

[103] Fed. Reserve Bank of St. Louis, *Bank Prime Loan Rate*, https://fred.stlouisfed.org/series/MPRIME (last accessed June 2, 2023).

[104] Margaret Seikel, *Examining the factors driving high credit card interest rates*, CFPB (Aug. 12, 2022), https://www.consumerfinance.gov/about-us/blog/examining-the-factors-driving-high-credit-card-interest-rates/.

[105] *See* Section 3.4.

FIGURE 7: QUARTERLY AVERAGE APR MARGIN, GENERAL PURPOSE CARDS TIED TO THE PRIME RATE (Y-14)



Limitations on repricing could push average margins higher, but these restrictions do not appear to explain the steady, market-wide increase in APRs. Industry commentors have argued CARD Act restrictions on upward repricing have resulted in higher interest rate margins.[106] The CFPB did find that credit card interest rates increased in a decreasing rate environment in its 2013 report,[107] and other research found that consumer credit cards were less likely to receive rate changes after the restrictions were put into place.[108] While CARD Act restrictions may be responsible for some of the initial increases in margins following implementation, the growth in margins over the past ten years suggests another factor may be involved, such as a lack of competition on APRs.

The apparent lack of rate competition likely drove the increase in average margin, as issuers grew interest revenue to offset increasing expenses and maintain high ROAs. Price competition may be reduced if consumers are unwilling or unable to base their purchase decision on price. Survey data suggest that many consumers do not know their credit card APR, nor do they shop with it in mind, focusing instead on annual fees and rewards.[109] For those who do not carry a

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[106] *See* American Bankers Association (ABA), Consumer Bankers Association (CBA), and National Association of Federally-Insured Credit Unions (NAFCU) comment letter at 2.

[107] *See* 2013 Report, *supra* note 3, at 31 to 32.

[108] *See* Section 6.1.1 in 2019 Report, *supra* note 3. *See also* [Working Paper] Dou, et al., *Does the Card Act Affect Price Responsiveness? Evidence from Credit Card Solicitations*, (Mar 2022), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4050426.

[109] *See* AARP comment letter at 2: "A recent survey showed that 47% of U.S. cardholders indicated they did not know or were unsure about their credit cards' interest rates, with that number rising to 55% for Gen Z respondents. If credit card users are unsure about their interest rates, they cannot effectively plan for or adapt to rising rates." *See*

balance from one month to the next, interest rates would not be relevant when choosing a card. Yet, APR is the primary cost of credit to revolving cardholders. Furthermore, in times of financial distress, an "idealistic transactor" may find themselves charged interest on a balance they originally expected to pay in full. [110] Even if a consumer is price sensitive, finding the actual purchase APR prior to account opening can be a major challenge, as most issuers only disclose a range. [111] Issuers have an incentive to avoid price competition. Companies benefit financially if they can set higher APRs without losing too many customers to cheaper options, potentially explaining issuers' reluctance to provide transparent pricing prior to origination or proactively decrease rates for existing cardholders. [112] Instead, issuers may be raising margins to pay for the increasing costs of rewards programs used to attract more customers and retain existing cardholders.

UPWARD REPRICING

Upward APR repricing accelerated in 2022, as the prime rate increased in most quarters. Under one exception to the CARD Act's general prohibition on increasing rates, card issuers are permitted to increase the APR existing (and new) balances if a card's rate is indexed to a market

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also New York City Department of Consumer and Worker Protection, at 5, "DCWP counselors have reported that clients find it difficult to find their annual percentage rate (APR) and other relevant terms of their credit cards." *See also* Christopher Stevens comment, "I've declined most credit offers due to interest rates in excess of 25%. This needs to be made clearer in each offer instead of just 'knowing where to look', as I do." *See also* PaymentsJournal, *The Most Important Factors for Consumers Choosing a Credit Car*d (Nov. 2021), https://www.paymentsjournal.com/the-most-important-factors-for-consumers-choosing-a-credit-card/.

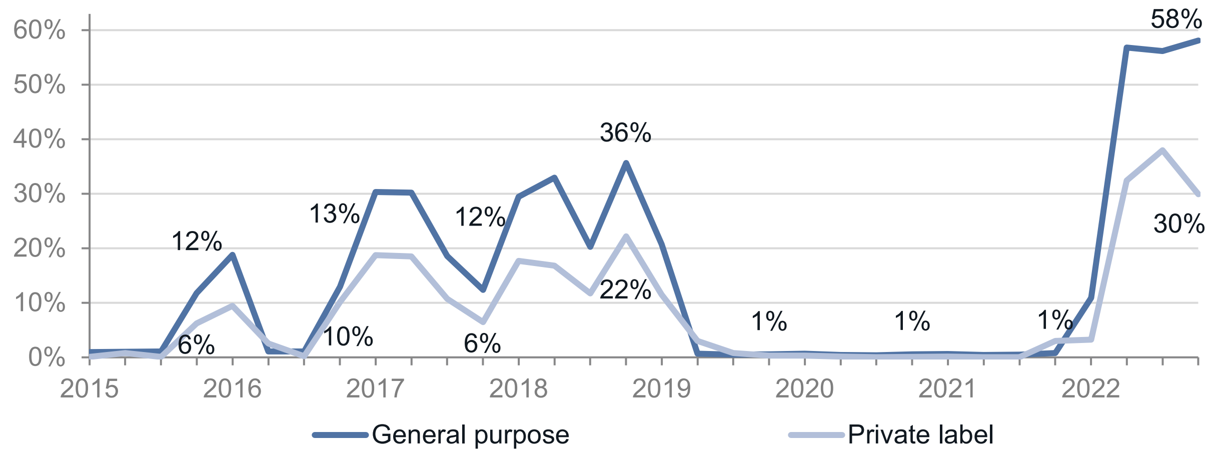
[110] According to the Survey on the Economic Well-Being of U.S. Households (SHED), revolving a balance on a credit card was the most common plan for covering a $400 emergency expense those who could not immediately pay it in cash or its equivalent. *See* note 86, *supra*.

[111] *See* Section 7.2.2 for more information on how soft inquiries could promote comparison shopping. *See also* Greg Leimeister comment, "When looking into opening a new account it's difficult to find out what the APR is on the card offered."

[112] Several individual commentors raised concerns around issuers' disinclination to reduce rates. *See* Valerie McCormick comment, "Credit card companies are quick to increase your interest rate (APR) when you are late with them, but there is not a practice to review your account after a set period of time to potentially decrease the interest rate. You have to call and request it....It can take some time to get through to the appropriate department with this request.... Some people do not know that you can call and make this type of request to reduce your APR." *See also* Toby Gussman comment, "despite using my three cards regularly (to keep them active), paying my bills on-time, and paying well above the minimum payment owed every month, I am only entitled to interest rates on my balances above 25% APR!! This is approaching payday loan levels!! I have never called the card issuers to request an increase to my credit limit or a reduction in the interest I am required to pay. However, the card issuers have had no problem automatically raising my credit limits several times, but have somehow failed to automatically reduce my high interest rates." *See also* Patricia Ameral comment, "Never missed or late on any payments the APR is 29.9% which is insane especially for myself with excellent credit and no missed or late payments... They keep saying NO lowering the Annual APR." *See also* Christopher Lee comment, "Interest rates are too high....No lenders retroactively lower terms or interest."

rate that increases.[113] As of 2022, 98 percent of general purpose accounts in the Y-14 were variable rate cards of this kind, compared to only two-thirds of private label accounts. Accordingly, general purpose cards show a higher rate of upward repricing than private label accounts (Figure 8). Cardholders with deep subprime scores saw a lower incidence of upward repricing compared to prime and above score cardholders. One explanation may be that issuers are hesitant to price cards above 36 percent—the interest rate cap for some states and under the Military Lending Act (MLA)—and some cards held by cardholders with lower scores may have come close to or reached 36 percent due to previous variable rate adjustments.[114] In a representative sample of the Y-14, there were no instances of accounts with APRs at or above 36 percent, but some products targeted at consumers with subprime scores currently have agreements contracted at 36 percent.[115]

FIGURE 8: MONTHLY AVERAGE INCIDENCE OF UPWARDS APR REPRICING (Y-14+)



A second notable exception to CARD Act restrictions on upward repricing, called the "delinquency exception," permits issuers to increase rates when a consumer does not pay at least the minimum periodic payment within 60 days after it is due.[116] In such circumstances, issuers must first provide consumers a notice including a statement of the reason for the increase and a

[113] A card issuer is permitted to increase the APR on a variable rate card when the increase is due to an increase in an index that is outside the issuer's control and available to the general public. 12 C.F.R. § 1026.55(b)(2).

[114] 10 U.S.C. § 987(b). The MLA applies a 36 percent cap on the Military Annual Percentage Rate, which includes costs like finance charges, certain fees, and add-on credit-related product charges. *See* Cons. Fin. Prot. Bur., *What is the Military Lending Act and what are my rights?*, https://www.consumerfinance.gov/consumer-tools/educator-tools/servicemembers/military-lending-act-mla/.

[115] *See e.g.*, First Premier Bank, *Current Credit Card Agreements*, https://connect.mypremiercreditcard.com/Home/Offers (last visited June 28, 2023).

[116] 12 CFR 1026.55(b)(4).

statement that the increased rate will cease to apply if the issuer receives six consecutive required minimum periodic payments on or before the payment due date. [117] For consumers who meet the six timely minimum payments requirement, issuers are required to reduce that rate. [118] For consumers whose rates are not reduced in this manner, issuers must conduct a periodic review based on certain factors and reduce the APR applicable to the consumer's account, as appropriate. [119] Data suggest this type of penalty repricing is fairly uncommon, with the monthly incidence of upward repricing typically 30 basis points or less on non-promotional APRs in quarters without an increase in the prime rate.

4.2.2 Effective interest rates

For the first time in our data, the effective interest rate (EIR) in 2022 on general purpose cards exceeded that of private label cards. While APR is a useful barometer of issuer pricing strategies, EIR provides a better measure of the cost of interest to cardholders because EIR incorporates the effects of cash advances and short-term promotional rates, such as those associated with deferred interest and balance transfer promotions. An EIR is computed by annualizing the total of all interest charges consumers paid divided by those consumers' cycle-ending balances. [120] Most private label cards have much higher APRs than general purpose card alternatives, but the EIR for both is similar across tiers, given how frequently private label cards offer low-interest or deferred-interest promotions on retail products. [121]

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[117] *Id.*

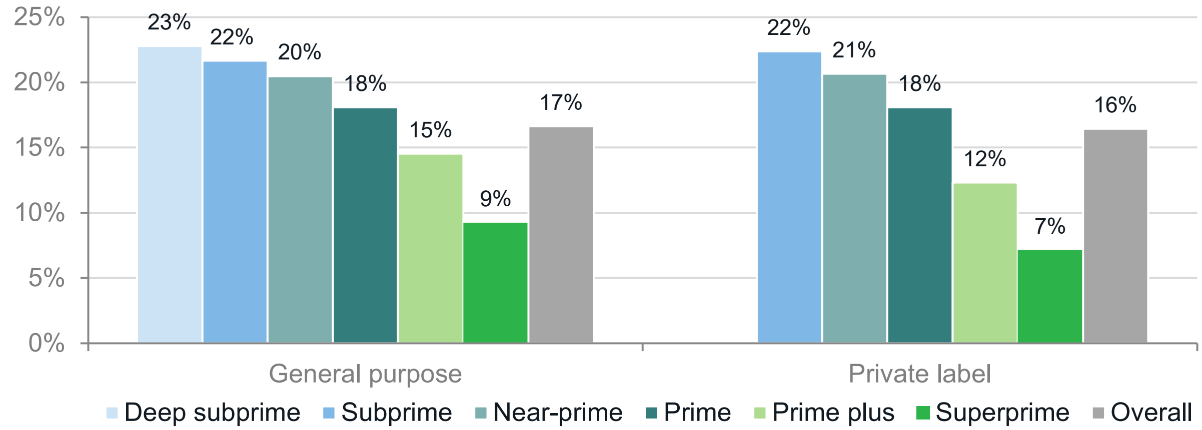
[118] If the rate applicable immediately prior to the increase was a variable rate, the issuer must reduce the rate to a variable rate determined by the same formula (index and margin) that was used to calculate the rate applicable immediately prior to the increase. *Id.*

[119] 12 CFR 1026.59. At least one issuer has failed to implement this review provision, which also applies to rate increases due to reasons other than delinquency and has since provided compensation to impacted cardholders. *See* Consent Order at 3-9*, In re CITIBANK N.A.*, 2018-CFPB-0003 (Jun. 29, 2018), https://files.consumerfinance.gov/f/documents/bcfp_citibank-na_consent-order_2018-06.pdf.

[120] Depending on payment strategies (and purchases throughout the cycle), the cycle-ending balance could be either dramatically higher or lower than the average daily balance, which is typically the basis of finance charge calculations.

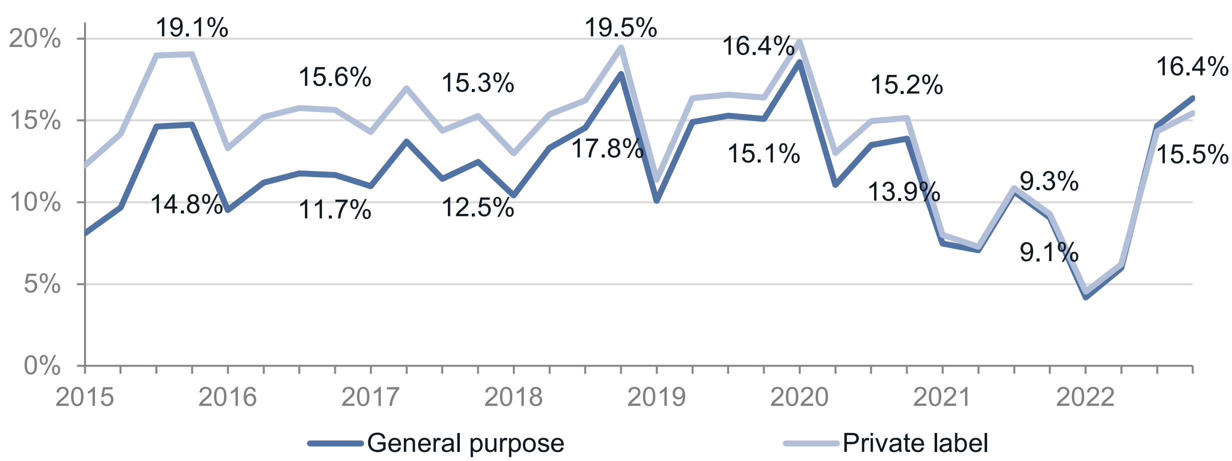
[121] *See* Section 5.2 of the 2021 Report, *supra* note 3, for more information on deferred interest. Industry commentors highlighted both concerns and benefits of deferred interest promotions. One commentor notes that "Deferred interest promotions are popular with consumers and are oftentimes used by Americans in emergency situations where a home appliance or other critical products need repair or replacement…" *See also* Retail Industry Leaders Association Comment Letter, at 1-2. More than one commentor recommended banning deferred interest products, because they "are inherently deceptive" and often do not communicate the end of promotional periods. *See all* National Consumer Law Center Comment Letter, at 3; New York City Department of Consumer and Worker Protection Comment Letter, at 5-6.

FIGURE 9: ANNUAL EFFECTIVE INTEREST RATE, REVOLVING ACCOUNTS, 2022 (Y-14+)



Unexpected inflation implied lower real EIRs than the otherwise stable nominal rates suggest for much of 2021 and 2022. Annualized quarterly real effective interest rates on general purpose cards rarely dipped below 10 percent since the beginning of 2015 but stayed below the 11 percent level for the entire calendar year of 2021 and the first half of 2022, hitting a low of 4.2 percent for the first quarter of 2022. As the similar nominal rates (discussed above) imply, real EIRs of private label cards were essentially the same as for general purpose cards over the same period, indicating an even larger shift for private label cards from their 2015 to 2020 levels.

FIGURE 10: QUARTERLY ANNUALIZED EFFECTIVE INTEREST RATE LESS INFLATION, REVOLVING ACCOUNTS (Y-14+)



4.2.3 Servicemember rate reductions

The Servicemembers Civil Relief Act (SCRA) provides important legal and financial protections to active duty servicemembers.[122] These protections include the ability to reduce the interest rate on any pre-service obligations or liabilities to a maximum of six percent; protections against repossession of certain property without a court order; protections against default judgments in civil cases; protections against certain home foreclosures without a court order; and the ability to terminate certain residential housing and automobile leases early without penalty.[123] In December 2022, the CFPB released a report examining National Guard and Reserve servicemembers' usage of credit protections under the Servicemembers Civil Relief Act. The report found that only a small fraction of activated National Guard and Reservists likely utilized the SCRA interest rate reduction benefit on auto and personal loans and identified several possible approaches to increase servicemember access to SCRA protections.[124] To better understand how these recommendations and other benefits are currently offered in the credit card market, this section reviews SCRA policies and other information from mass market issuers credit card issuers as of the end of 2022.[125]

SCRA rate reduction requests declined during the pandemic but increased as credit card balances grew. The number of accounts reviewed for SCRA eligibility dropped from 420,000 in 2019 to 240,000 in 2022. Total SCRA rate reduction approvals declined during the pandemic in 2020 and 2021 but increased in 2022, as shown in Figure 11. Issuer denials of rate decrease requests remained relatively constant during this same period. As discussed in prior sections, revolving balances on credit cards declined from 2019 to 2021 and then increased in 2022. The decline in SCRA requests during this period can likely be attributed to the overall decline in total balances and the share of revolving accounts discussed in Sections 3.2 and 3.3, as an eligible servicemember has less incentive to request a rate reduction if they have low or no balances.

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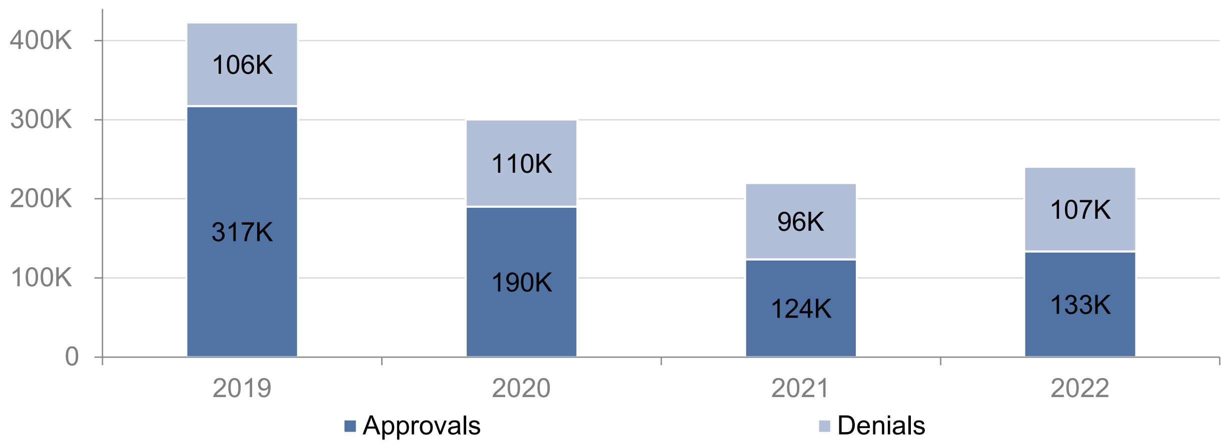
122 50 U.S.C. §§ 3901-4043.

123 50 U.S.C. § 3931-3959.

124 Charles Goldman and Yael Katz, Protecting Those Who Protect Us: Evidence of activated Guard and Reserve servicemembers' usage of credit protections under the Servicemembers Civil Relief Act, CFPB (2022), https://files.consumerfinance.gov/f/documents/cfpb_servicemembers-usage-of-scra-credit-protections_2022.pdf.

125 Consumer groups commented, "the CFPB should conduct its own detailed research into the impact of the MLA and Servicemembers Civil Relief Act's coverage of credit cards on servicemembers, and not rely on flawed outside research that portrays such impact in a negative light." *See* NCLC comment, at 13 to 14.

FIGURE 11: ANNUAL SCRA REQUEST DECISION VOLUME (MMI)



Major credit card issuers have taken some steps to streamline servicemember utilization of the interest rate reduction benefit. The primary way servicemembers utilize the interest rate reduction benefit is by providing a creditor with written notice of their military status and supporting documentation, such as military orders or any other appropriate indicator of military service.[126] Creditors may also independently verify a servicemember's request or proactively identify servicemember eligibility using information from the Defense Manpower Data Center (DMDC), a database operated by the Department of Defense.[127]

All surveyed credit card issuers check the DMDC database to independently verify a servicemember's military status and eligibility for the interest rate reduction benefit. The check eliminates the need for most servicemembers to provide additional documentation.[128] At least two credit card issuers have SCRA policies that include proactively checking the DMDC database to identify accounts that may be eligible for SCRA benefits, but the majority of those surveyed still require servicemembers to request a rate reduction. The CFPB has previously identified using the DMDC database to proactively identify servicemembers and provide them rate reductions on eligible accounts as one approach to increasing low utilization of SCRA benefits.[129] Each surveyed issuer also has SCRA policies that require an enterprise-wide search for additional servicemember accounts and the application of the interest rate reduction to all

[126] 50 U.S.C. § 3937(b)(1)(A).

[127] 50 U.S.C. § 3937(b)(1)(A).

[128] 50 U.S.C. § 3937(b)(1)(B). A creditor may use, in lieu of notice and documentation under subparagraph (A), information retrieved from the Defense Manpower Data Center through the creditor's normal business reviews of such Center for purposes of obtaining information indicating that the servicemember is on active duty.

[129] *Supra* note 124, at 34.

accounts held by the institution when a servicemember notifies the issuer that they are eligible for SCRA benefits and protections. This practice was also identified as an implementation approach that could increase utilization rates. [130]

Many credit card issuers offer servicemembers a lower interest rate than the maximum six percent interest rate required by the SCRA. The SCRA limits interest rates on pre-service obligations or liabilities to a maximum of six percent and extends that benefit during the period of activation or, in the case of certain mortgages, for an additional year following military service. [131] Half of the surveyed issuers reduced interest rates to the six percent required by the SCRA, or 5.9 percent, slightly below the maximum permissible rate. One-fourth of the surveyed issuers reduced rates to 4 percent. Other surveyed issuers reduced rates to zero percent, and still others reduced rates to 4 percent for certain home loans and reduced rates to 6 percent for other types of accounts. The calculation of the SCRA six percent interest rate reduction also includes certain fees associated with that card (*i.e.*, annual fees). [132] All issuers either included these fees in the six percent interest rate limit or waived these fees, and many included late fees in the fees waived for eligible accounts.

Credit card issuers often provide expanded benefits or give servicemembers additional time to request a reduced interest rate. The SCRA allows servicemembers to request an interest rate reduction on an obligation or liability for up to 180 days after the date of a servicemembers' termination or release from military service. [133] The SCRA also states that an obligation or liability eligible for the rate reduction must be incurred before the servicemember enters military service. [134] The interest rate applies during the period of military service and, in the case of home mortgages, for one year after military service. [135] A few issuers allowed servicemembers to notify them of their active duty status up to one year after the end of active duty, and one offered nine months. Half of issuers provided the 180-day notification period required by the SCRA and did not provide for extra time to make an interest rate reduction request. While all credit card issuers had policies that required an eligible account to be opened prior to active duty, most credit card issuers extended the interest rate reduction benefit to charges made

[130] *Id.*

[131] 50 U.S.C. § 3937(a)(1).

[132] 50 U.S.C. § 3937(d)(1). The term "interest" includes service charges, renewal charges, fees, or any other charges (except bona fide insurance) with respect to an obligation or liability.

[133] 50 U.S.C. § 3937(b)(1)(A).

[134] 50 U.S.C. § 3937(a)(1).

[135] Id.

during active duty and did not limit the interest rate reduction solely to pre-service balances. Issuers also frequently extended the time for which the reduced interest rate applied. One issuer had no de-enrollment process, and some issuers provided the SCRA interest rate reduction for credit cards for one year after the end of military service. A few issuers provided interest rate reductions only during military service, or for an additional year for mortgage loans, as required by the SCRA.

Some credit card issuers have adopted SCRA policies that extend the SCRA interest rate benefit to spouses or dependents beyond what is required. The SCRA interest rate reduction benefit is available for obligations or liabilities incurred by a servicemember or the servicemember and their spouse jointly.[136] Most issuers have policies that extend the interest rate benefit in certain circumstances. For example, some issuers extend benefits to domestic partners and dependents, and some extend benefits to accounts that are not jointly held with the eligible servicemember. A minority of those surveyed limited the interest rate reduction benefit to joint accounts held by the eligible servicemember and their spouse.

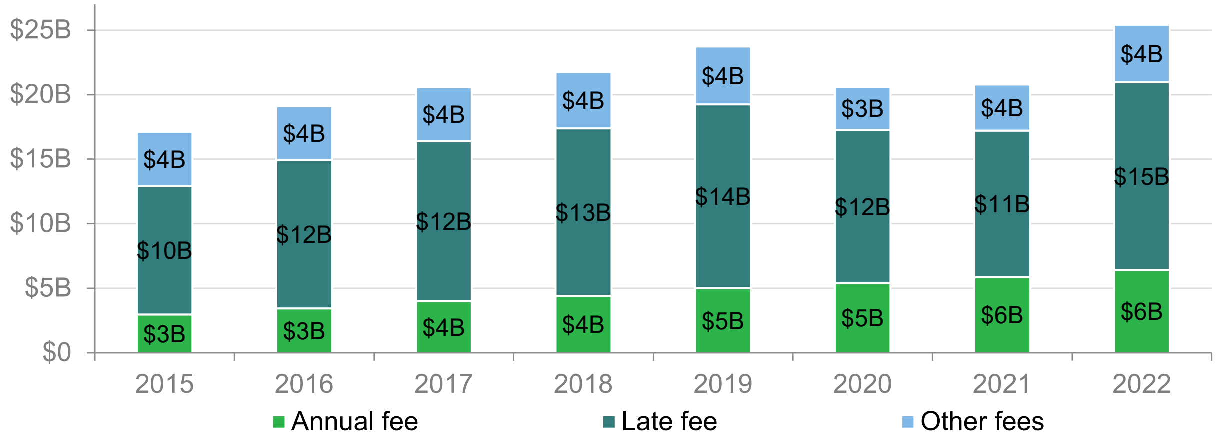
4.3 Fees

Cardholders incurred $25.4 billion in fees in 2022, the highest nominal level observed in our data, up more than 20 percent from 2020 levels of $20.6 billion. Fee waiver programs may have reduced fees charged in 2020. However, private relief efforts for pandemic-related hardship do not explain the drop in 2021, as most pandemic-related waiver programs stopped new enrollment that year.[137] Rather, the lower fee volume in 2021 occurred because more cardholders paid their bills on time and incurred fewer late fees. Annual fees grew in 2021 and 2022, while other fees (a combination of non-late and non-annual transactional and other penalty fee categories) remained fairly similar in aggregate.

[136] 50 U.S.C. § 3937(a)(1).

[137] *See* 2021 Report, *supra* note 3, at Section 5.

FIGURE 12: ANNUAL TOTAL FEES CHARGED (Y-14+)

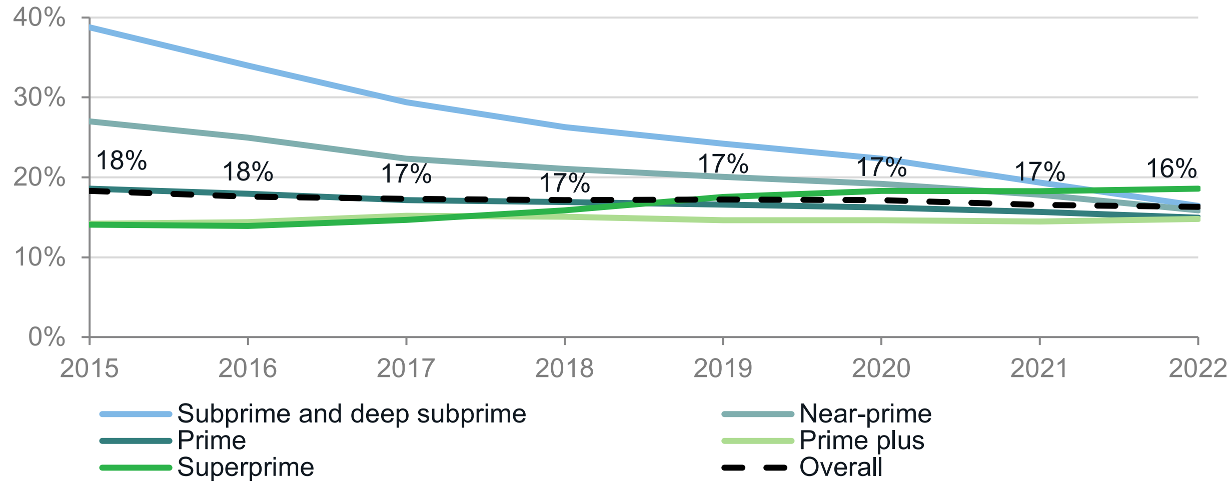


Collectively, fees comprise just under one-fifth of total consumer costs and have grown as a share of balances. For consumers who do not revolve, fees are the primary cost of using a credit card. As a share of revolving balances, total fees increased over the past two years. For private label accounts, fees were equivalent to 5.9 percent of balances in 2022, up from 5.2 percent in 2019; on general purpose cards, they were 2.5 percent of balances, up from 2.0 percent. Relative to balances, fees incurred on private label accounts that revolve are higher than for their general purpose counterparts. Fees as a share of debt on private label cards have not yet returned to pre-pandemic norms of above six percent. Yet, fee-to-balance ratios hit their highest level on general purpose cards in 2022 since at least 2015, driven by an increase among cardholders with subprime and deep subprime scores at 10 percent in 2022, up from 7.5 percent of balances in 2020.

4.3.1 Annual fees

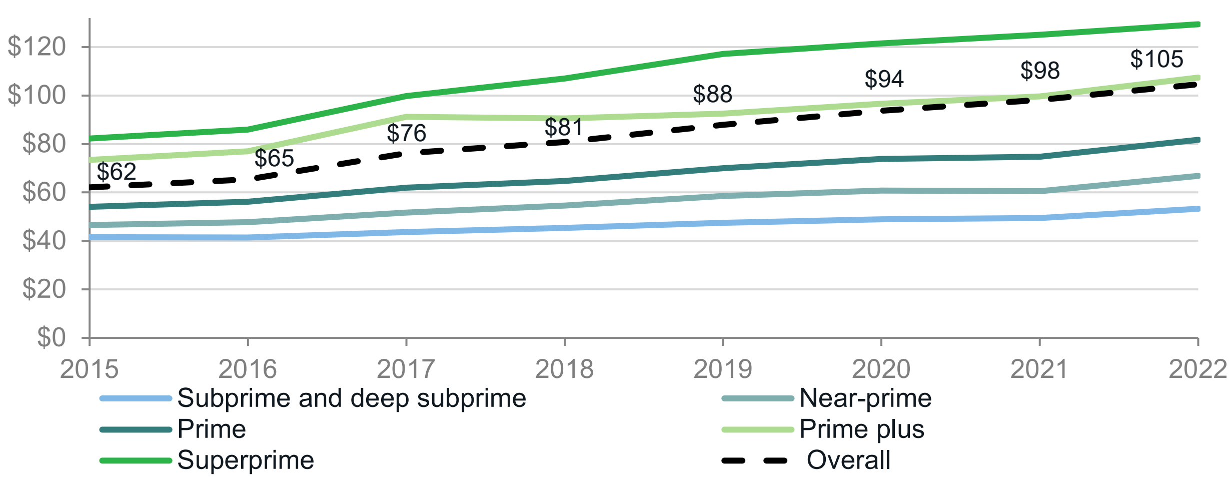
In the observed period, while the percentage of consumers who pay an annual fee declined, the total dollars paid in annual fees was the highest level in our data. Annual fee volume has more than doubled from $3.0 billion in 2015 to $6.4 billion in 2022. The typical periodic fee has shifted from being charged to cardholders with subprime scores to being paid by cardholders in the highest score tiers. The share of accounts assessed an annual fee in the Y-14 declined about one percentage point since 2020 to 16.3 percent. More cards in prime plus and superprime tiers pay this charge each year. In contrast, annual fees have become less prevalent for cardholders with below-prime scores.

FIGURE 13: QUARTERLY ANNUAL FEE PREVALENCE, GENERAL PURPOSE (Y-14)



The average annual fee is becoming more expensive, partly reflecting the increased prevalence of credit cards with more generous rewards but greater annual fees. Cardholders with superprime scores were charged an average of $129 in annual fees in 2022 for each account that carried such a fee. Some share of revenue from cards held by consumers with prime and above scores is typically returned to cardholders in the form of rewards and other benefits.[138] In contrast, cardholders in lower credit score tiers may pay annual fees to offset higher credit risk or operating costs relative to typically lower revolving balances.

FIGURE 14: AVERAGE ANNUAL FEE, GENERAL PURPOSE (Y-14)

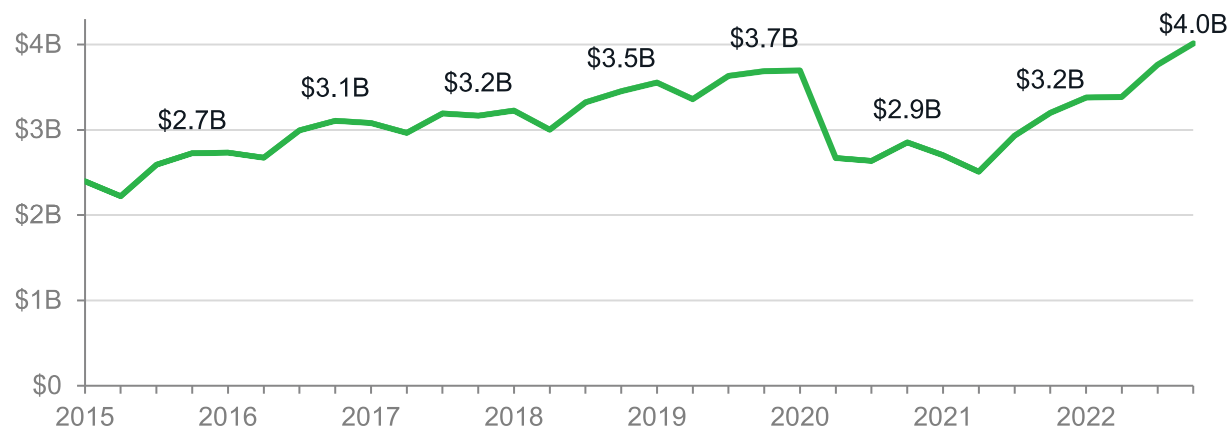


[138] *See* Section 4.4 for more information on the net cost of credit and 6.1 for rewards more generally.

4.3.2 Late fees

Total late fee volume and incidence in 2022 returned to pre-pandemic levels, following declines in both 2020 and 2021. Quarterly late fees charged exceeded $4 billion for the first time in the fourth quarter of 2022. Issuers in the Y-14+ reported $14.5 billion in late fees in 2022, up from $11.3 billion in 2021, $11.9 billion in 2020, and slightly above $14.2 billion in 2019. Declines in late fees in 2020 and 2021 may be attributed to card issuer late fee waiver programs and other forms of federal disaster relief implemented on a temporary basis during the pandemic. Despite these measures, late fees consistently ranked as the most significant fee assessed to cardholders in both dollar amount and frequency.

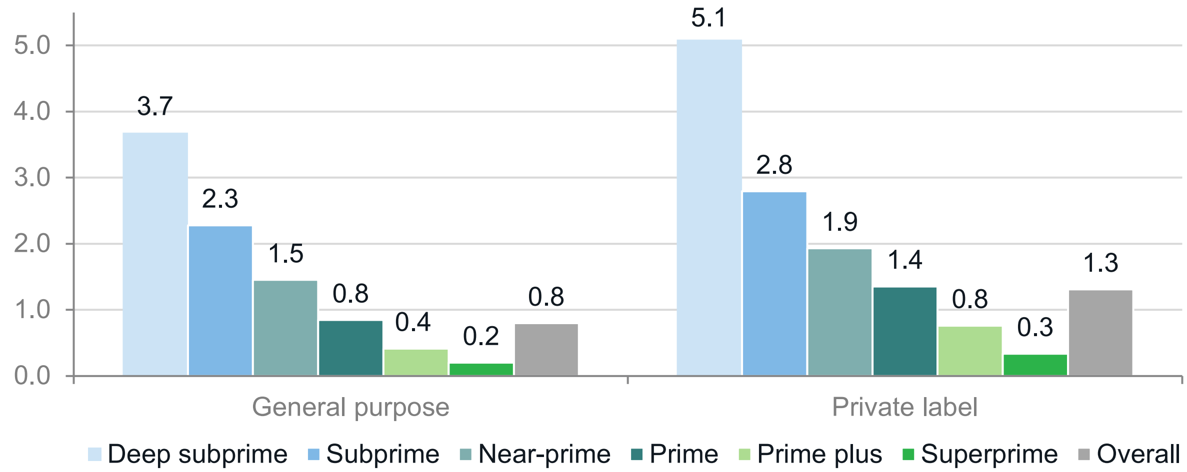
FIGURE 15: QUARTERLY LATE FEES CHARGED (Y-14+)



Late fee incidence returned to about one late fee per year per account in 2022. For all tiers, late fees remain more common on private label accounts than general purpose cards. The burden continued to fall disproportionally on accounts with lower scores, largely due to their higher incidence of late payments.[139] Consumers with superprime scores hold 30 percent of card accounts but generated only six percent of late fee volume; in contrast, consumers with deep subprime scores hold about six percent of card accounts but generated 28 percent of late fees.

[139] *See* Late Fee Report, *supra* note 29, at 10.

FIGURE 16: AVERAGE LATE FEE INCIDENCE PER YEAR, 2022 (Y-14+)



The average late fee increased from $31 in 2021 to $32 in 2022 across both first-time and repeat incidents of late payment, explaining part of the increase in total volume in 2022.[140] This increase is largely attributable to the automatic $1 increase in the penalty fee safe harbor under Regulation Z to $30 for a first violation and $41 for subsequent late payments within six billing cycles (if less than the minimum payment due), implemented in late-2021.[141] Most of the largest issuers charge the safe harbor amount.[142] On average, issuers charge cardholders with deep subprime scores over $8 more than superprime accounts per late payment. This occurs for two reasons. First, cardholders with below-prime scores are more likely to incur repeat late fees at the higher fee of $41. Second, cardholders with higher scores obtain late fee waivers significantly more often than those in lower tiers.[143]

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140 Average late fee is net volume (sum of late fees less those later waived) divided by total late fee incidence (regardless of whether the fee is later reversed).

141 86 Fed. Reg. 60357 (Nov. 2021), https://www.federalregister.gov/documents/2021/11/02/2021-23478/truth-in-lending-regulation-z-annual-threshold-adjustments-credit-cards-hoepa-and-qualified. Issuers generally assess a late fee when consumers do not make at least their minimum payment by the monthly due date. The dollar amounts of late fees and other penalty fees are subject to CARD Act provisions that generally require them to be "reasonable and proportional." Issuers can set a late fee amount based on the cost of collections or use the regulatory "safe harbor," which has historically been adjusted for inflation. Initially, the safe harbor was set at $25 for an initial late fee and $35 for a second late fee within six billing cycles of a prior late fee.

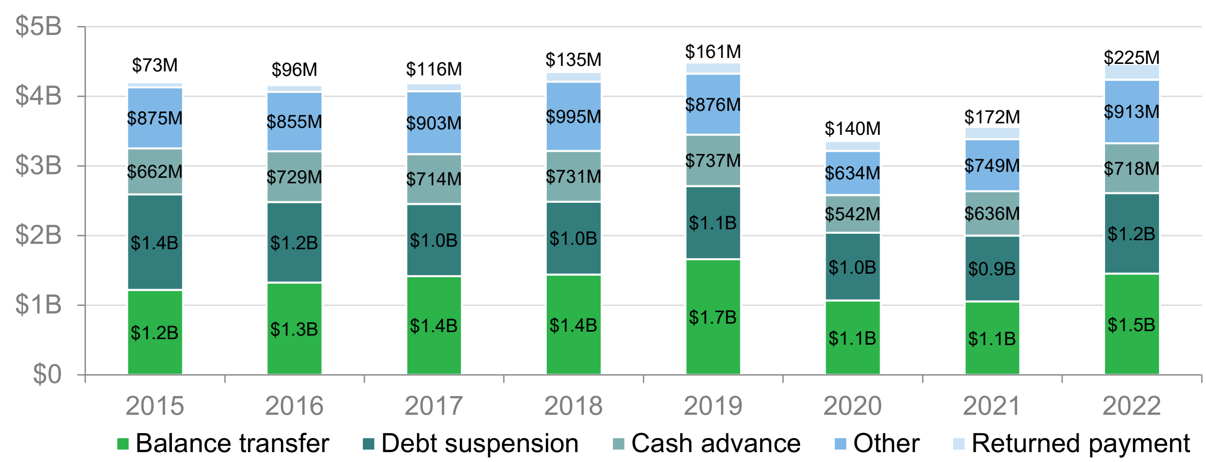
142 *See* Late Fee Report, *supra* note 29.

143 Y-14. Issuers waive late fees as a courtesy in about five percent of overall cases. *See* 88 Fed. Reg. 18906 (Mar. 2023), https://www.federalregister.gov/documents/2023/03/29/2023-02393/credit-card-penalty-fees-regulation-z, at note 162.

4.3.3 Other fees

The volume of other (not annual or late) fees that issuers charge on credit cards declined in 2020 and 2021 but returned to pre-pandemic levels of just over $4 billion in 2022. Roughly half of other fee volume in 2022 was incurred by cardholders for using balance transfers and cash advance features.[144] The second most common other fee, debt suspension, has remained fairly stable. Of all fee types, returned payment fees, also known as non-sufficient funds (NSF) fees, grew the fastest over 2021 and 2022, increasing 60 percent in two years, despite remaining the smallest discrete fee category at less than one percent of total fee volume. Typically, issuers must choose between assessing a late or a returned payment fee when a consumer does not have sufficient funds for an attempted payment nor a subsequent successful payment before the due date. Issuers may be assessing NSF fees rather than late fees in more cases. Over-limit fees remained practically non-existent, as they have since the implementation of the CARD Act and its requirement that consumers affirmatively opt in.[145] Fees not broken out into discrete categories totaled almost $1 billion in 2022. These fees may be charged for reasons like foreign transactions,[146] breaking transactions into installment plans,[147] card replacement, statement copies, and beyond.

FIGURE 17: ANNUAL OTHER FEES CHARGED (Y-14+)



144 *See* Section 6.3 and Section 6.4 for more information regarding balance transfers and cash advances.

145 *See* Section 6.5 for more information regarding over-limit transactions.

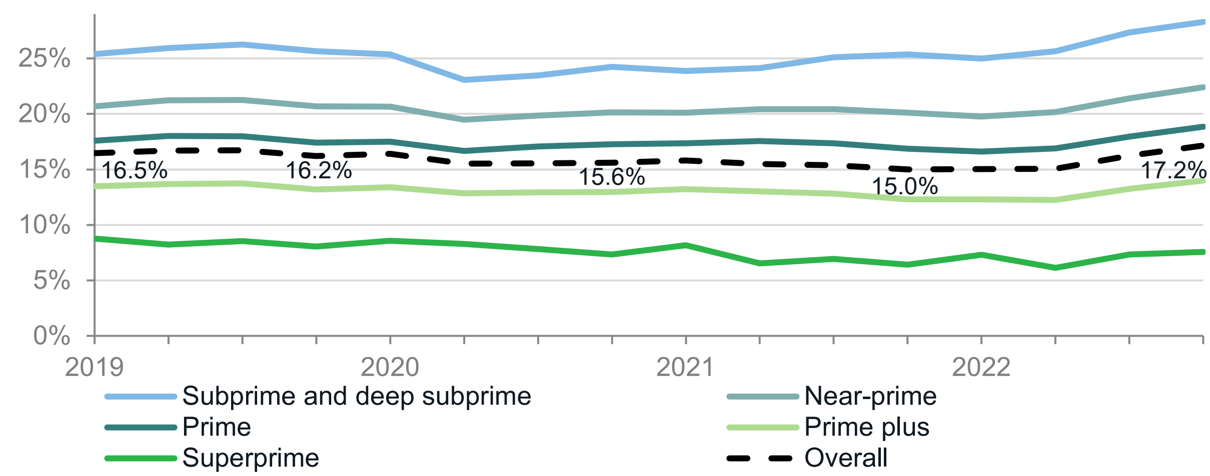
146 Some credit card companies charge a fee as a percentage of an international transaction, but many offer this benefit without additional costs. Two commentors characterized foreign transaction fees ask junk fees.

147 *See* Section 6.2 for more information regarding installment plans.

4.4 Net cost of credit

After accounting for the value of earned rewards, the net cost of revolving general purpose credit cards at major issuers dropped in 2021 and then increased in 2022. Net cost of credit (NCC) for revolving accounts is calculated as total interest and fees charged less rewards earned as an annualized percentage of cycle-ending balances. [148] When a consumer revolves a balance on their credit card, interest and fee costs typically exceed the value of any rewards earned. Rewards could reduce a cardholder's cost of credit by two percentage points if subtracting the dollar value of earned rewards from costs as a share of balances. Because cardholders with above-prime scores are more likely to carry rewards cards and because earning is tied to new spending on an account, superprime consumers with higher purchase volumes see a reduction in their cost of credit of almost five percentage points when including the value of earned rewards. In comparison, consumers with subprime scores receive annual rewards-to-balances value of less than one percentage point. Increasing rewards from greater purchase volume in 2021 and 2022 explain part of the trends in Figure 18, along with declining costs and debt in 2021 that then rebounded in 2022.

FIGURE 18: QUARTERLY ANNUALIZED NET COST OF CREDIT, REVOLVING ACCOUNTS, GENERAL PURPOSE (Y-14, MMI)

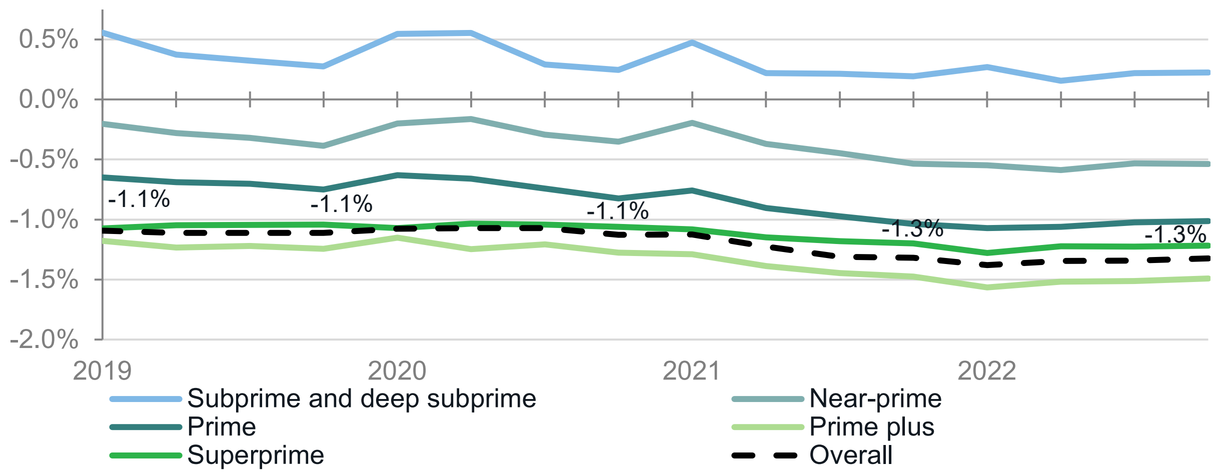


Cardholders who pay off their credit card bill in full each month earn more in rewards on average than they pay in interest and fees, and the benefit of rewards has increased since 2020. For transacting general purpose accounts at major issuers, NCC was negative 1.3 percent in 2021 and 2022, an improvement for cardholders from negative 1.1 percent in 2019 and 2020. In other

[148] As this report calculates rewards for all general purpose accounts, not just rewards cards, NCC considers the market-level averages. NCC on rewards cards would be more generous than the statistics presented here.

words, based on the average NCC, a transacting cardholder who charged $10,000 to a major issuer's credit card in 2022 would have earned $135 more in rewards than they paid in interest and fees that year. For consumers with higher scores, the net costs of cardholding generally decrease, but those with prime plus scores receive more benefit per dollar spent than those with superprime scores. One reason could be that higher purchase volume on superprime cards dilutes the impact per dollar of lump-sum reward awards like sign-up or referral bonuses. For the small share of transacting accounts with subprime and deep subprime scores, the value of rewards does not offset the interest and fees associated with those cards.

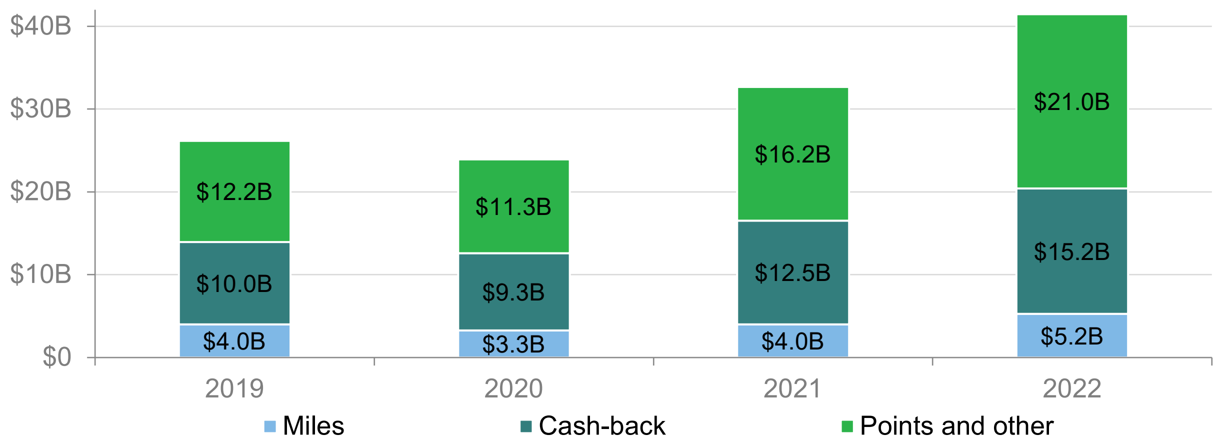
FIGURE 19: QUARTERLY ANNUALIZED NET COST OF CREDIT, TRANSACTING ACCOUNTS, GENERAL PURPOSE (Y-14, MMI)



4.5 Rewards earned

Total rewards earned dropped slightly in 2020 but have risen steadily since. Holders of mass market general purpose cards earned an estimated $41.1 billion in rewards in 2022, a 58 percent increase from 2019 levels of $26.1 billion. [149] Of the three primary rewards channels (cash back, miles, and points), [150] points growth drove most of the increase.

FIGURE 20: ANNUAL DOLLAR VALUE OF REWARDS EARNED, GENERAL PURPOSE (MMI)



For those with rewards cards, the average rewards earned per dollar spent has grown since the pandemic. In 2019 and 2020, general purpose cardholders earned 1.4 cents for each dollar spent on a rewards card. Earn rates increased to 1.6 cents per dollar in 2021 and 2022. Issuers typically fund rewards through interchange revenue. For issuers in the Y-14+, the average interchange rate on general purpose cards was 1.8 percent, with rewards representing almost nine-tenths of interchange revenue. [151] Earning rates are about the same across credit score tiers for those with rewards cards, except for consumers with scores above 800. One reason the earn rate for accounts with superprime scores is lower than other tiers may be because these

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149 Rewards earned include both lump-sum rewards such as sign-up bonuses and rewards accumulated at a set rate per dollar spent but exclude the value of other benefits associated with rewards cards that cannot be measured in miles, points, or cash back. The value of rewards earned are reported in dollar values as determined by issuers. Issuers typically valued one point or mile at about $0.01 but had discretion to adjust this value based on their internal estimates of redemption values and likelihood of forfeiture. *See* Section 6.1 for more information on rewards redemption and forfeiture.

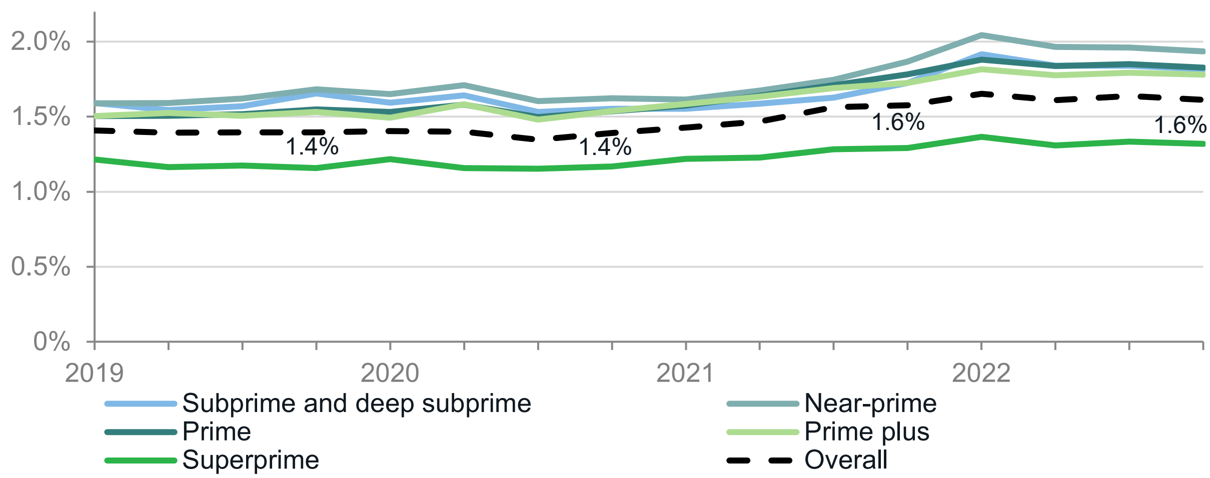
This is also a lower-bound on the dollar value of rewards earned, as mass market issuers (MMI) are a large but non-representative sample of the total rewards marketplace, and issuers may not have insight into all rewards earned, redeemed, or forfeited when separately managed by a co-brand partner.

150 First, "cash" or "cash back" rewards allow consumers to redeem rewards for statement credits, checks, deposits to an asset account, or cash at an ATM. Second, "miles" programs managed by third-party airlines are associated with co-brand cards that allow consumers to accumulate airline-branded rewards when using their card. The remaining programs are classified as "other," a category that includes non-cashback issuer-managed programs (such as those that offer "points" redeemable for travel) as well as programs managed by third parties that are not airlines, such as hotel chains.

151 *See* Section 2.2.2 for more information on interchange income and its role in credit card issuers' profitability.

cardholders are more likely to hold rewards cards that provide more non-pecuniary rewards (like concierge service, lounge access, free bag checking for flights, or travel insurance) that are not quantified in the dollar value of rewards earned.

FIGURE 21: QUARTERLY REWARDS EARNED AS A PERCENTAGE OF PURCHASE VOLUME ON REWARDS CARDS, GENERAL PURPOSE (MMI)



4.6 Persistent debt

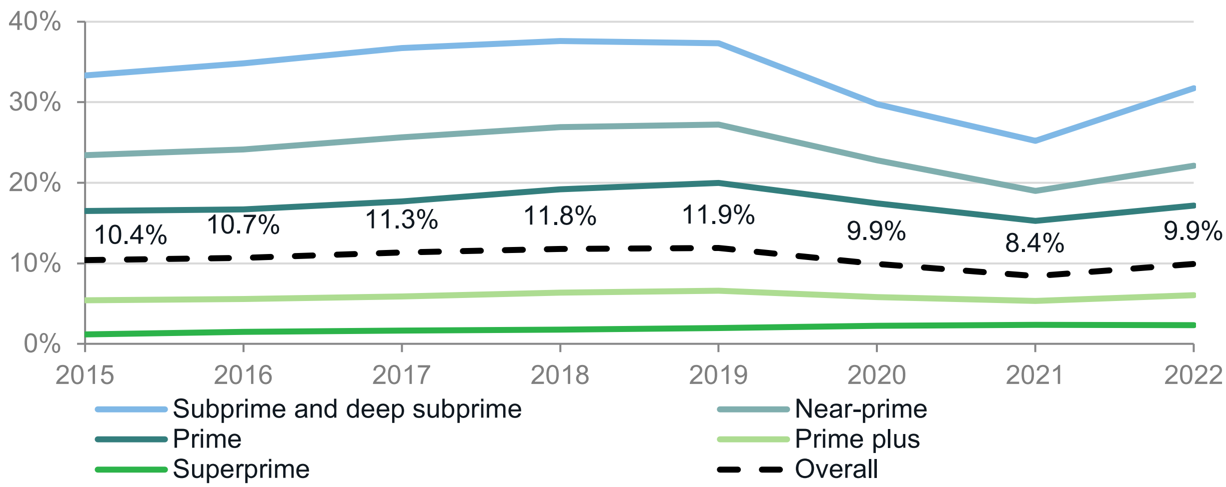
The cost of using credit cards differs dramatically based on how long a borrower takes to repay, and some cardholders find that their debt can linger for a long time if payments are not large enough to pay down a balance quickly. The longer a consumer carries debt without repaying in full, the more expensive a purchase becomes. The CFPB finds it appropriate to examine this relationship between balances, payments, and costs using "persistent debt." For the purposes of this report, debt is considered "persistent" if charges for interest and fees exceed half of the actual payment amount on an account in a given calendar year.[152] Persistent debt is not the same as negative amortization where the total minimum payment fails to cover at least accrued interest, but it does indicate longer-term consumer difficulty in paying off new purchases alongside previous balances at a given interest rate and fee incidence.

About one in ten general purpose accounts in the Y-14 showed persistent debt in 2022. Almost all were revolving accounts with significant average balances, but this share also includes a small number of transactors with high annual fees and few purchases. The share of accounts in

[152] For example, if a consumer made $1,000 in payments but was charged $550 in interest and fees on an average balance of $2,500 (for a TCC of 22 percent), we would consider the account to be in persistent debt as only $450 went to repaying the amount borrowed.

persistent debt steadily increased before the pandemic, reaching 11.9 percent in 2019, before declining to 8.4 percent in 2021, driven by increased repayment by accountholders with below-prime scores. [153] In 2022, the share of accounts in persistent debt rose to 9.9 percent, likely due to macroeconomic factors such as falling real income and rising interest rates.

FIGURE 22: ANNUAL SHARE OF ACCOUNTS IN PERSISTENT DEBT, GENERAL PURPOSE (Y-14)



The persistence of debt is strongly influenced by macroeconomic and policy factors, many of which significantly changed between 2019 and 2022. When real interest rates rise or the prices of goods rise faster than wages, consumers will face difficulty repaying existing balances without either cutting expenses or receiving a windfall. [154] In 2020 and 2021, consumers received a series of such lump sums: more than 476 million payments totaling $814 billion in federal stimulus funds. [155] Research suggests at least part of these funds went toward paying down credit cards. [156] These windfall payments enabled some consumers to pay down credit card debt, but as both

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153 *See* Section 3.3 for more information regarding repayment.

154 Comments on difficulty of paying down existing debt were one of the most common responses from consumers. *See* Delia Binder comment, "I got behind on credit card payments and had them cancel my cards, but not the money I owed them, after one month. I was deeply in debt until I received a windfall in the form of an inheritance." *See also* John Buhovecky, Loretta Walker, Dawn Jones, Christopher Lee, Amy Moore, Lynn O'Shea, Kathi Thonet, S Simmons, JoEllen Rudolph, Suzi Love, and Nancy Petranto.

155 Pandemic Oversight, *Update: Three rounds of stimulus checks. See how many went out and for how much* (Feb. 17, 2022), https://www.pandemicoversight.gov/news/articles/update-three-rounds-stimulus-checks-see-how-many-went-out-and-how-much.

156 Robert M. Adams et al., *Why Did Credit Card Balances Decline so Much during the COVID-19 Pandemic*, Bd. of Governors for the Fed. Rsrv. Sys., (Dec. 3, 2021), https://www.federalreserve.gov/econres/notes/feds-notes/why-did-credit-card-balances-decline-so-much-during-the-covid-19-pandemic-20211203.html.

inflation and interest rates have risen in the past year and users are incurring late fees at higher rates, more cardholders may face difficulty managing their debts.[157]

[157] *See e.g.,* Scott Horsely, *Americans are piling up credit card debt — and it could prove very costly*, NPR (Jan. 11, 2023), https://www.npr.org/2023/01/11/1148122555/credit-card-debt-inflation-interest-rate-payments-federal-reserve.

5. Availability of credit

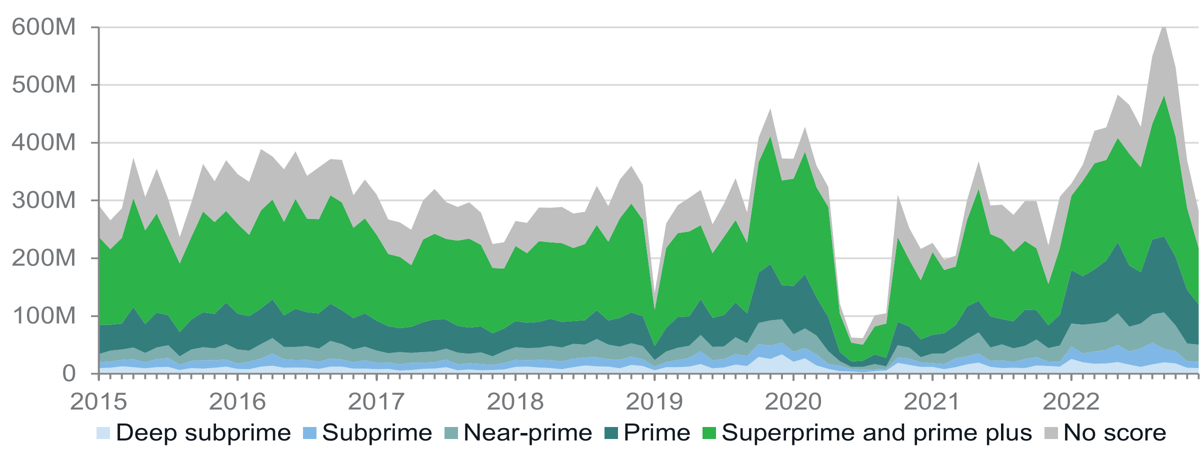
As in prior reports, this section examines measures relating to credit card availability. It explores two broad areas: new account origination and credit availability after origination. To do so, it tracks the credit card account life cycle, starting with marketing and consumer applications across a range of channels. Next, we track issuer approvals as well as new account and line origination. Finally, this section discusses credit lines available to consumers and issuer line management of existing accounts.

5.1 New accounts

5.1.1 Marketing and comparison shopping

In 2022, credit card marketing efforts were at their highest since at least 2015. Monthly mail volume reached 610.6 million items in September 2022 after the recent trough of 61.7 million in July 2020. Credit card marketing picked up in 2021, as average monthly mail volume rose 21 percent year-over-year, before rising a further 60 percent to reach an average of 438.1 million items per month in 2022. Consumers with scores above 720, who represent the majority of the scored population, received 40 percent of mail volume.

FIGURE 1: MONTHLY MAIL VOLUME (COMPETISCAN, MINTEL COMPEREMEDIA)[158]

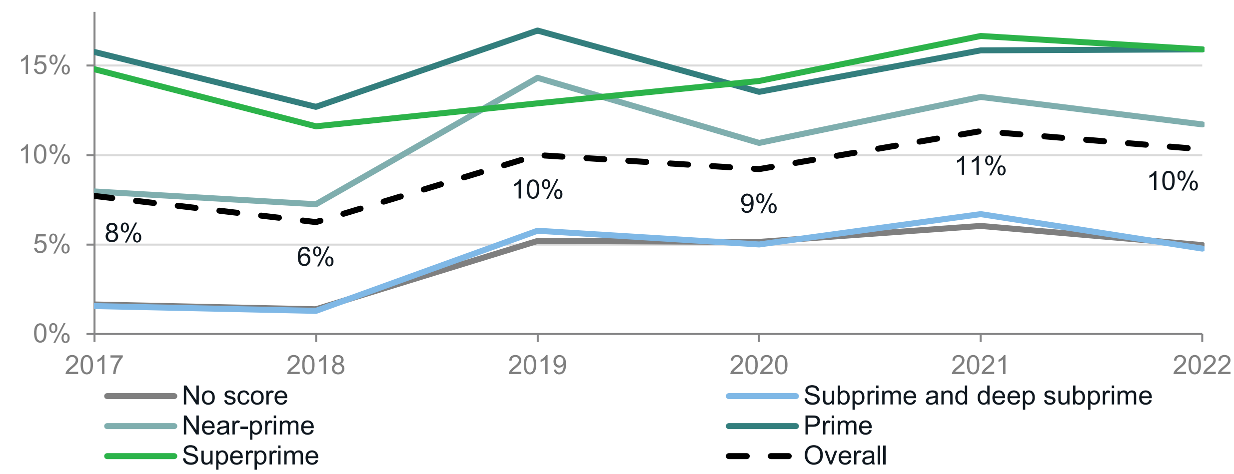


[158] Data following October 2019 were supplied by Competiscan. Data prior to this date were supplied by Mintel Comperemedia.

PRESCREENED OFFERS

Prescreened offers continue to generate around 10 percent of applications, a level largely stable over the course of the COVID-19 pandemic. Prescreened offers, also known as "pre-approved" or "pre-selected" offers, are solicitations, typically sent via direct mail, that are targeted at specific people based upon their credit records. For a prescreened offer, credit records are assessed with a "soft pull" that does not impact a consumer's credit scores. Issuers tend to send more offers to consumers with higher scores, because they are more likely to meet the predetermined criteria issuers provide to credit reporting agencies when identifying prospects. As such, a greater share of applications from consumers with higher credit scores are in response to pre-screened offers: 16 percent of applications submitted by consumers with both superprime and prime scores in 2022 were facilitated by prescreened offers, while pre-screened offers made up only five percent of applications for consumers with either subprime or unknown credit scores.

FIGURE 2: SHARE OF APPLICATIONS FACILITATED BY PRE-SCREENED OFFER, GENERAL PURPOSE (MMI)



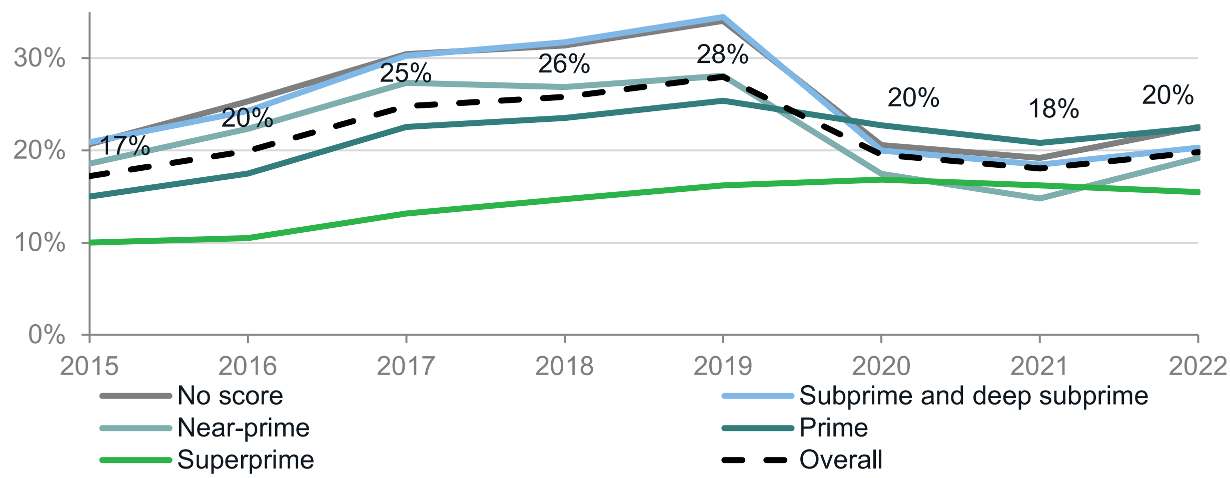
Although pre-approved offers are commonly mailed to consumers, pre-screened offers can take additional forms, including online prequalification channels. Several large card issuers now provide an online portal where consumers can check if they are likely to qualify for a specific credit card without impacting their credit scores (as may be the case with a typical credit application).[159] An issuer may not provide the approval likelihood for all its products. However, the growing trend of demystifying the credit card application process through accessible digital engagement rather than issuer-initiated direct mail likely benefits consumers.

[159] *See, e.g.,* Melissa Lambarena, *Credit Cards That Offer Pre-Qual or Preapproval Without a Hard Pull*, NerdWallet, (July 7, 2023), https://www.nerdwallet.com/article/credit-cards/credit-cards-that-offer-preapproval-without-a-hard-pull.

THIRD-PARTY COMPARISON SITES

Third-party comparison (TPC) sites such as Credit Karma, NerdWallet, and others drive a lower share of credit applications than before the pandemic but remain a significant channel for digital traffic. The share of general purpose applications submitted via the TPC-site channel remained at about one-fifth from 2020 through 2022, down from a high of 28 percent in 2019. Typically, TPC sites assist consumers in finding cards for which they are likely qualified when they seek credit.[160] Consumers with higher scores are likely to qualify for more credit cards than consumers with lower scores and may not need as much assistance in finding cards for which they are qualified. As such, those in the superprime credit tier were the least likely to apply via a TPC site in 2022. In 2022, 15 percent of consumers with superprime scores applied via a referral link from TPC sites, whereas 20 percent of consumers with subprime scores and 23 percent of consumers without credit scores applied via TPC sites. However, the share of consumers with lower credit scores applying via TPC sites has not returned to pre-pandemic levels, as shown in Figure 3. TPC sites now facilitate general purpose card applications for consumers in all tiers at more similar rates than immediately before the pandemic.

FIGURE 3: SHARE OF APPLICATIONS FACILITATED BY TPC SITES, GENERAL PURPOSE (MMI)



[160] Consumers are required to permission the TPC to access their data. However, at times, TPC sites have overstated the approval odds for a given consumer, leading to denials and negative credit score impacts for people who applied expecting to meet an issuer's underwriting criteria. *See* Federal Trade Commission, *FTC Finalizes Order Requiring Credit Karma to Pay $3 Million and Halt Deceptive 'Pre-Approved' Claims*, (Jan. 23, 2023), https://www.ftc.gov/news-events/news/press-releases/2023/01/ftc-finalizes-order-requiring-credit-karma-pay-3-million-halt-deceptive-pre-approved-claims.

In 2023, the CFPB updated the fields collected from credit card issuers in the Terms of Credit Card Plans (TCCP) survey, partly to provide alternative data to those on TPC sites. [161] The survey data are collected semiannually from the 25 largest card issuers and a sample of at least 125 other issuers, including banks and credit unions. The survey includes information about the cost and availability of credit card products. [162] Unlike some TPC sites, issuers cannot pay for better placement on the CFPB comparison site, and the CFPB does not earn a commission from any referrals to issuer websites. [163] Rather, it is intended to serve as an additional, neutral source to drive further competition, fairness, and transparency in the marketplace.

5.1.2 Applications

To apply for a card, consumers submit an application through one of several channels, such as going online, using a mobile application, calling the issuer, or walking into a bank branch or retail store to fill out a paper or digital application in-person. The issuer then decides whether to issue a credit card based on its internal underwriting process. [164] Issuers consider economic and market conditions when determining whether to loosen or tighten standards for approving individual card applicants. In 2022, U.S. consumers submitted over 160 million credit card applications, which is roughly the same number as those submitted in 2021 and a significant increase from the roughly 140 million applications submitted in 2020. [165]

Post-pandemic normalization led to a rebound in application volume for general purpose cards, both overall and for every credit tier. Compared to 2019 levels, general purpose application volume in 2021 remained steady or increased for cardholders with above-prime scores and decreased for cardholders with below-prime or no scores, as shown in Figure 4. The number of applications for general purpose cards increased further in 2022, totaling over 87 million applications for mass market issuers, with increases in volume for every credit score tier. The

[161] *See* John McNamara and Margaret Seikel, *Why we're modernizing how we collect credit card data*, CFPB, (Aug. 19, 2022), https://content.consumerfinance.gov/about-us/blog/why-were-modernizing-how-we-collect-credit-card-data/.

[162] 15 U.S.C. 1616(b) (2012).

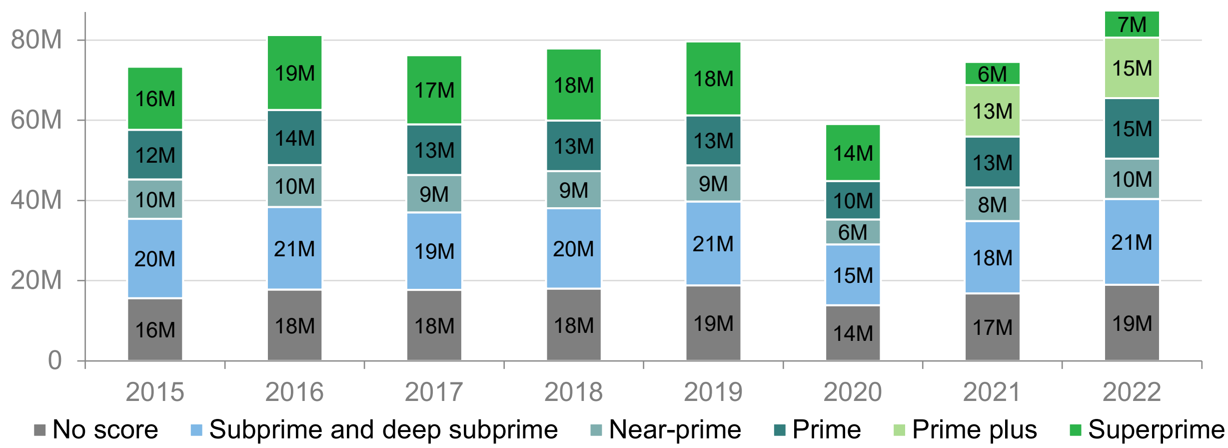
[163] For more information on the affiliate marketing relationships TPC sites have with issuers, see the 2017 Report, *supra* note 3, at 265 to 300.

[164] In addition to an issuer's internal processes, issuers are required to consider an applicant's ability to pay the minimum monthly payment on an account prior to opening a credit card account under an open-end (not home-secured) consumer credit plan or increasing a credit line on such an account. 12 CFR 1026.51(a)(1)(i) (2019).

[165] CFPB research on credit applications found that, by the spring of 2021, credit card applications had returned to pre-pandemic levels. *See* Éva Nagypál, *Special issue brief: The Recovery of Credit Applications to Pre-Pandemic Levels*, CFPB, (July 27, 2021), https://files.consumerfinance.gov/f/documents/cfpb_recovery-of-credit-applications-pre-pandemic-levels_report_2021-07.pdf.

near-prime tier saw the greatest percent change, with 21 percent more applications in 2022 than in 2021. Total general purpose application volume in 2022 reached its highest level since at least 2015, increasing by over 28 million since 2020 and by over almost eight million from 2019. Increased household spending due to inflation and decreased government support may have increased demand for credit, which could partially explain the rise in applications in 2022. The previously discussed industry-wide expansion in marketing expenditure alongside record reward offers could contribute to recent increases in credit card application volume. [166]

FIGURE 4: APPLICATION VOLUME FOR MASS MARKET ISSUERS BY CREDIT SCORE TIER, GENERAL PURPOSE (MMI) [167]



The post-pandemic rebound in retail card application volume in 2021 was smaller in magnitude than that of general purpose cards. While 2021 retail card application volume increased relative to 2020 levels, it fell below 2020 levels in 2022. As shown in Figure 5, in 2022, consumers submitted over 77 million applications for retail cards to mass market issuers, down from over 88 million retail card applications the year prior. Both 2021 and 2022 application volume increased relative to 2020 levels for consumers with prime credit scores and for those with no score. Both overall and in every credit score tier except superprime, there were fewer applications for retail cards than general purpose cards in 2022.

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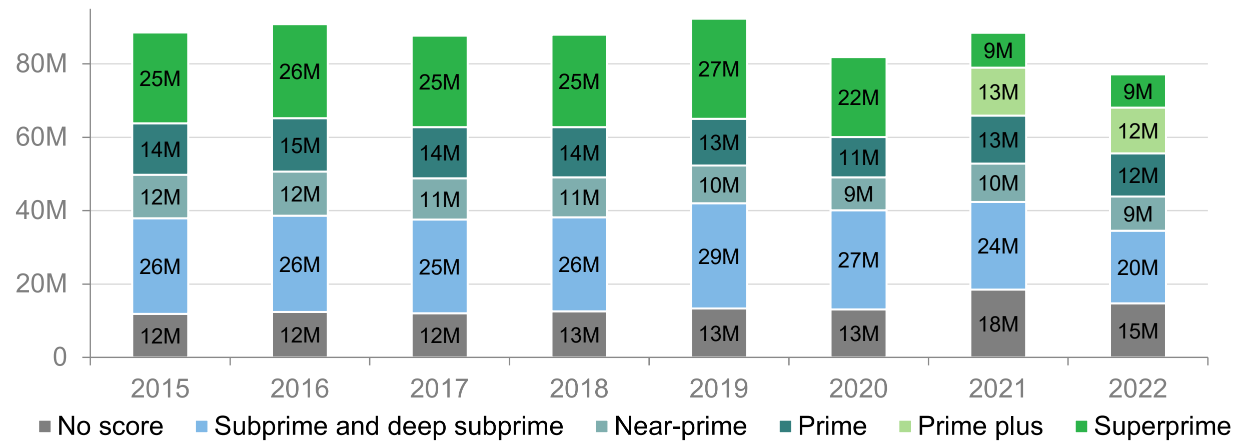
[166] *See* AnnaMaria Andriotis, *Banks Spend Big to Boost Credit-Card Sign-Ups, Defying Recession Fears*, Wall St. J., (Aug. 2, 2022), https://www.wsj.com/articles/banks-spend-big-to-boost-credit-card-sign-ups-defying-recession-fears-11659432600?mg=prod/com-wsj. *See* Section 6.1 for more info on rewards offers and sign-up bonuses.

[167] The CFPB began separating prime plus from superprime in this report, as such, superprime prior to 2021 includes both prime plus and superprime consumers.

FIGURE 5: APPLICATION VOLUME FOR MASS MARKET ISSUERS BY CREDIT SCORE TIER, RETAIL (MMI)[168]

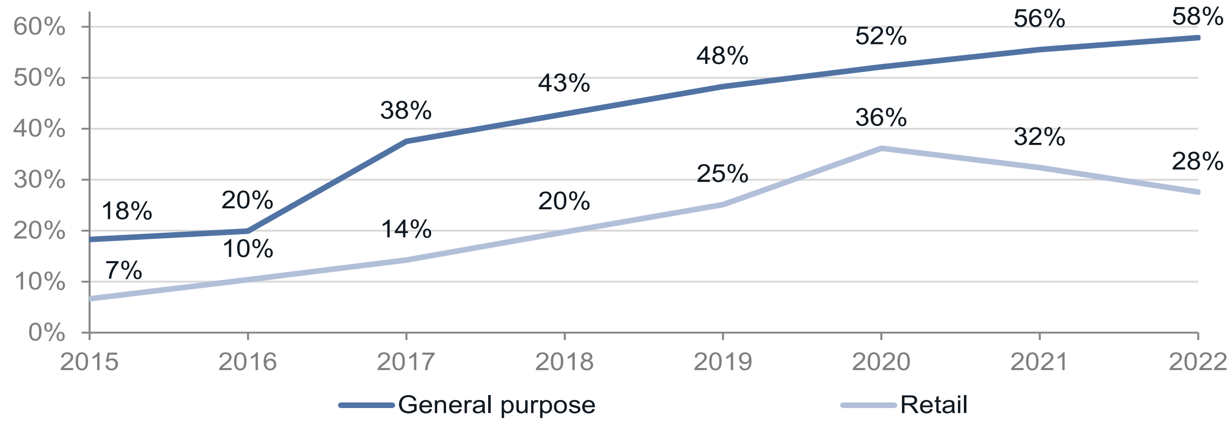


A significant share of general purpose and retail applications are now submitted via digital channels. In 2022, the digital channel accounted for 86 percent of general purpose card applications and 44 percent of retail card applications. While digital channel application volume was higher in 2022 than in 2019 for both general purpose and retail cards, the share of card applications submitted digitally has slightly declined since 2020.

Mobile devices have become increasingly prominent channels for credit card applications, as most applications for general purpose cards are now submitted via phone or tablet. As shown in Figure 6, the mobile device channel accounted for 58 percent of new applications for general purpose cards in 2022, up from 52 percent in 2020 and 56 percent in 2021. However, the share of consumers applying via mobile devices differs by credit tier—consumers with higher credit scores submit a smaller proportion of credit card applications using mobile devices than do consumers with lower credit scores. While over 60 percent of general purpose applications submitted by consumers with below-prime scores were through mobile devices, the share drops to under 43 percent for consumers with superprime scores. An increase in digital adoption could help explain the growing share of mobile applications.

[168] The CFPB began separating prime plus from superprime in this report, as such, superprime prior to 2021 includes both prime plus and superprime consumers.

FIGURE 6: SHARE OF APPLICATIONS SUBMITTED BY MOBILE DEVICES (MMI)



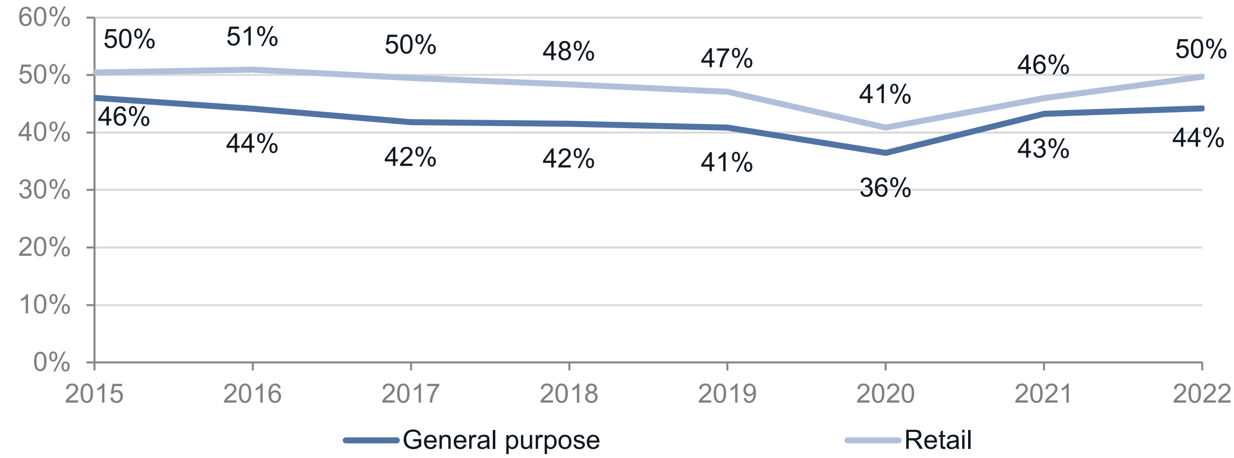
While the mobile application rate remains above pre-pandemic levels for retail card applications, it has decreased since its peak in 2020. As shown in Figure 6, the mobile channel accounted for 32 and 28 percent of retail card applications in 2021 and 2022, respectively. While this number is up from 25 percent in 2019, it is down from a high of 36 percent during the height of COVID-19 in 2020. The year-over-year decline from 2020 to 2021 and from 2021 to 2022 may reflect the return to in-person business.[169] The increase in mobile applications relative to pre-pandemic levels represents a continuation of the longer-run trend toward mobile device applications observed since 2015. As with general purpose applications, the share of retail card applications submitted via mobile devices increases with each lower credit tier: consumers with superprime scores submitted nine percent of retail card applications using a mobile device, compared to over 40 percent of consumers with subprime and unknown scores.

5.1.3 Approvals

Approval rates had been declining year-over-year from 2015 to 2020; however, that trend reversed in 2021 and 2022. As shown in Figure 7, general purpose approval rates in 2021 and 2022 exceeded 2018, 2019, and 2020 levels. The overall general purpose card approval rate increased from 36 percent in 2020 to 43 percent in 2021 and 44 percent in 2022. Like general purpose cards, after dropping in 2020, retail card approval rates increased in 2021 and 2022. About half of applicants for private label and non-airline or hotel co-brand cards were approved in 2022, similar to rates last seen before the pandemic.

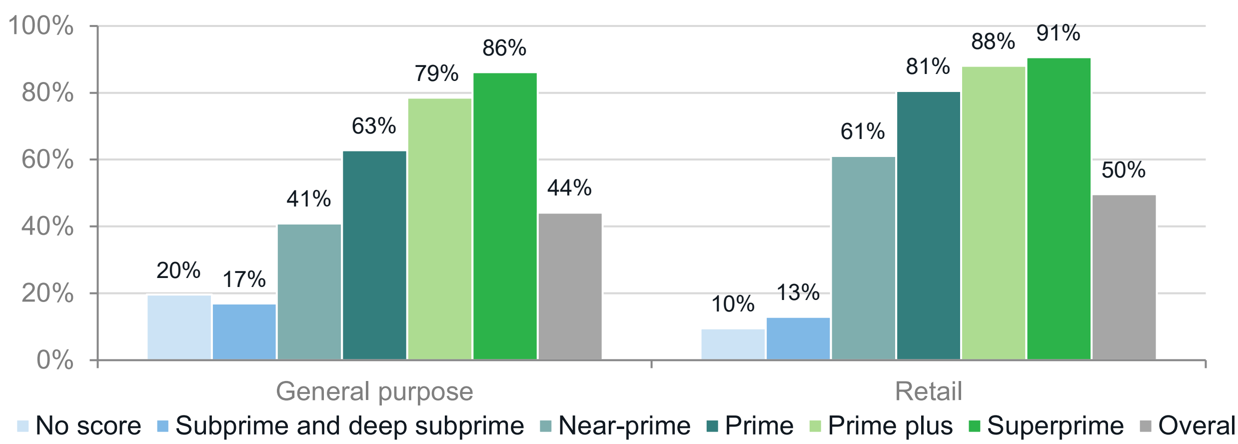
[169] *See* N.Y. Times, *See Reopening Plans and Mask Mandates for All 50 States*, (July 1, 2021), https://www.nytimes.com/interactive/2020/us/states-reopen-map-coronavirus.html.

FIGURE 7: APPROVAL RATE (MMI)



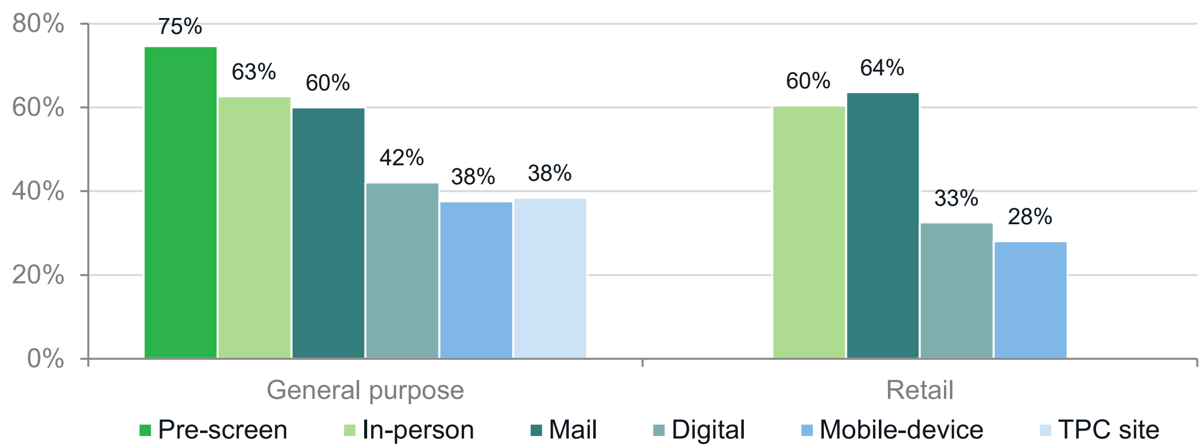
Approval rates vary significantly by credit tier—well over half of credit card applications submitted by consumers with prime and above-prime are approved, while under one-fifth of credit card applications submitted by consumers in the subprime and deep subprime credit tiers were approved. As shown in Figure 8, approval rates for every credit tier except for the subprime and no score tiers were higher for retail cards than for general purpose cards in 2022. The overall 2022 retail card approval rate of 50 percent was also higher than the overall 44 percent approval rate for general purpose cards.

FIGURE 8: APPROVAL RATE BY CREDIT SCORE TIER, 2022 (MMI)



Approval rates vary substantially by application channel but do not tend to vary significantly by card type. As shown in Figure 9, pre-screen, in-person, and mail channels tend to have the highest approval rates. Pre-screened solicitations are the channel with the highest approval rate, as credit card companies use information from credit reporting companies to make pre-screened offers of credit to consumers whose credit histories meet the criteria selected by the card company.[170] Accordingly, as demonstrated in Figure 9, the 75 percent approval rate for pre-screened solicitations is over 10 percentage points higher than the channel with the next highest approval rate. In-person and mail approval rates of approximately 60 percent are comparable to each other and for both card types. Rates for mobile and digital channels are typically lower but vary by credit tier.[171] The approval rates for general purpose applications submitted by TPC sites and mobile devices were each 38 percent, which is six percentage points below the average overall general purpose approval rate. TPC sites directly facilitated over 6.6 million approvals in 2022. While this number was over 1.8 million more approvals than in 2021 and nearly three million more approvals than in 2020, it was over half a million less than the all-time high in 2019.

FIGURE 9: APPROVAL RATE BY APPLICATION CHANNEL, 2022 (MMI)



5.1.4 Account origination

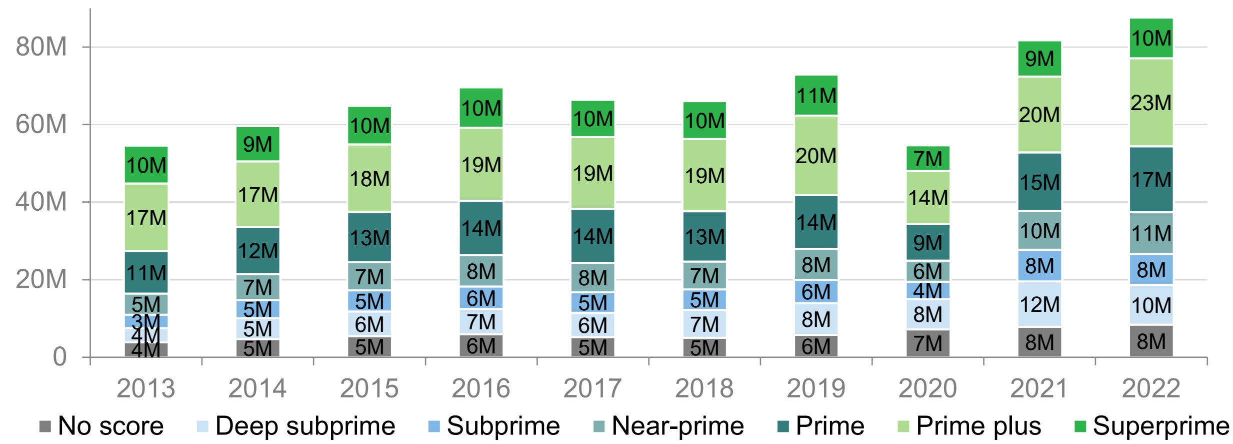
The recent upticks in marketing, applications, and approvals led to a significant rebound in credit card originations in 2021 after the pandemic's effects in 2020, with substantially more activity in 2022 for the near-prime to prime plus tiers. American consumers opened more than 80 million general purpose credit cards in both years, as shown in Figure 10. Overall increases in new account volume (from 72.9 million in 2019 to 87.6 million in 2022) appear to be driven primarily from increases in new accounts by consumers with lower scores. The superprime tier

[170] The credit card company is not required to provide credit cards to consumers who receive pre-screened solicitations. Consumers must still apply and be approved. Once consumers apply, the card company can review their application and other information, such as an updated credit report, to determine whether their credit history still meets the criteria it used to send them the offer and whether they meet any additional criteria (such as sufficient income to pay the debt) that were in place at the time it made the offer.

[171] Mobile is a subset of digital.

did not see more new cards in 2022 than in 2019, and for the prime plus tier, 2021 was on par with 2019. In 2021, consumers with prime scores or below saw one to four million more new cards in each tier than in 2019, and consumers with prime scores opened an additional two million accounts in 2022. However, deep subprime originations fell by 1.5 million from 2021 to 2022.

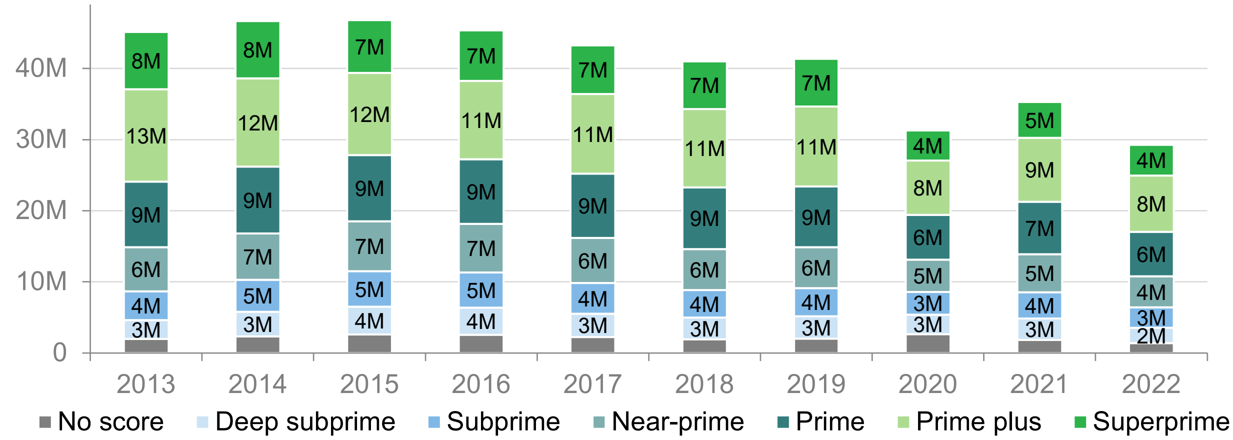
FIGURE 10: ANNUAL NEW ACCOUNT VOLUME, GENERAL PURPOSE (CCP)



In contrast to rising new account volume for general purpose, private label card originations have generally fallen since 2015, with declining volumes in every credit score tier. Private label card originations exceeded 46 million in 2015 and remained above 41 million in 2019. However, by 2022, consumers opened fewer than 30 million new private label cards. All credit score tiers had fewer new card openings in 2022 than they did in any year between 2013 and 2019, as shown in Figure 11. Since applications decreased and approval rates for retail cards increased in recent years, the drop in private label originations appears to be driven more by a lack of demand than constricting supply. Considering the growth in other payment options like BNPL at online retailers and increasing originations of general purpose cards, the 2022 drop in new private label card accounts appears to be a continuation of the decline in private label cards we observed in our last report.[172]

[172] *See* 2021 Report, *supra* note 3, at 26.

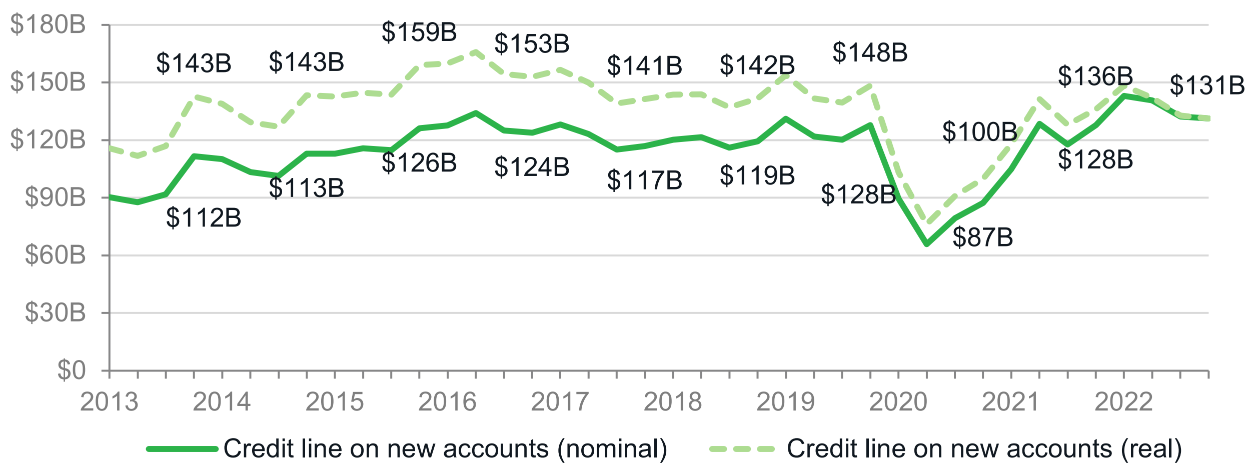
FIGURE 11: ANNUAL NEW ACCOUNT VOLUME, PRIVATE LABEL (CCP)



5.1.5 New account credit line

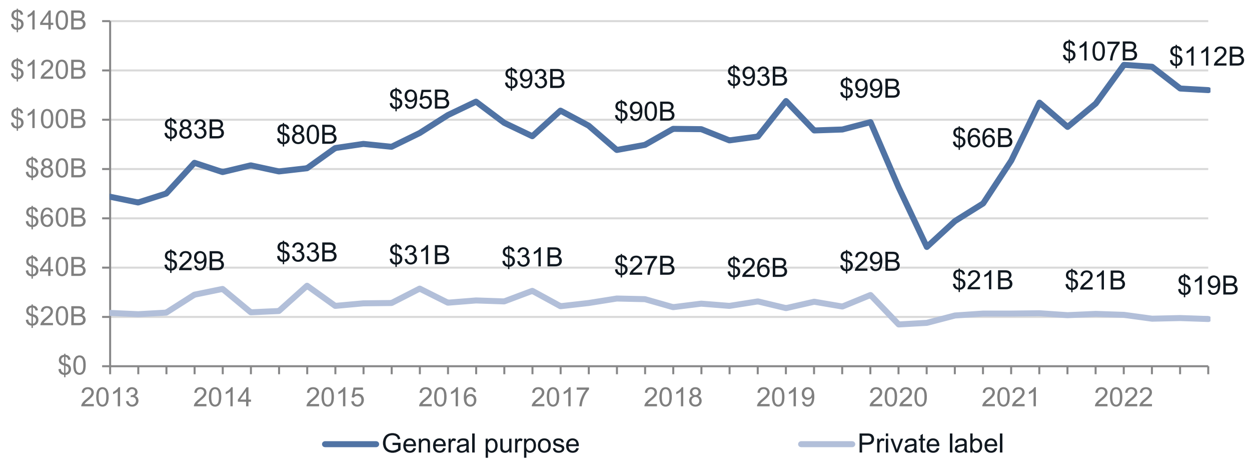
Total credit line on new accounts recovered from its low point in 2020 to reach new nominal highs but remained below pre-pandemic levels after adjusting for inflation. In 2022, the total credit line on new accounts was $547.3 billion, more than in any calendar year since at least 2013, as shown in Figure 12. In real terms, using the 2022 purchasing power of the dollar throughout, more credit was originated each year from 2015 to 2019 than in 2022. The quarterly total of the credit line on new accounts fell to $87 billion in the second quarter of 2020 and rose steadily through 2021 and 2022 to reach more than $130 billion per quarter in 2022. However, the real line with these new accounts remains below historic norms due to the relatively higher rates of inflation observed in the past two years.

FIGURE 12: QUARTERLY TOTAL CREDIT LINE ON NEW ACCOUNTS, NOMINAL AND INFLATION-ADJUSTED (CCP)



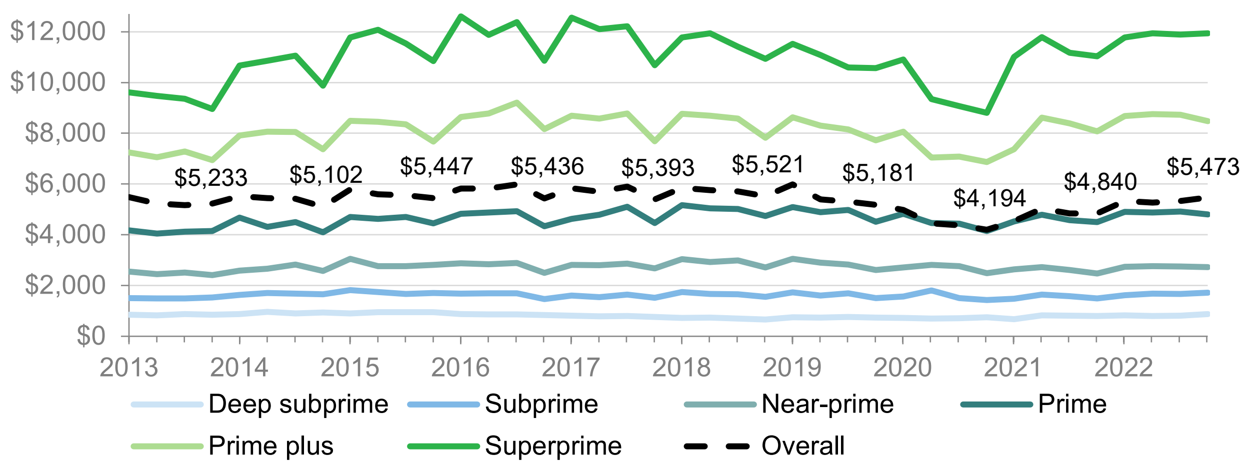
General purpose cards accounted for all the growth in new credit line; in contrast, new private label card line declined during the pandemic and has not yet recovered. Declining new private label line is in part due to fewer card applications and subsequent originations since approval rates and average credit line increased over this period. Prior to the pandemic, new private label credit line averaged roughly $30 billion per quarter, but it has not exceeded $21 billion since the first quarter of 2020. Meanwhile, new general purpose line increased by 91 percent since 2020.

FIGURE 13: QUARTERLY TOTAL CREDIT LINE ON NEW ACCOUNTS (CCP)



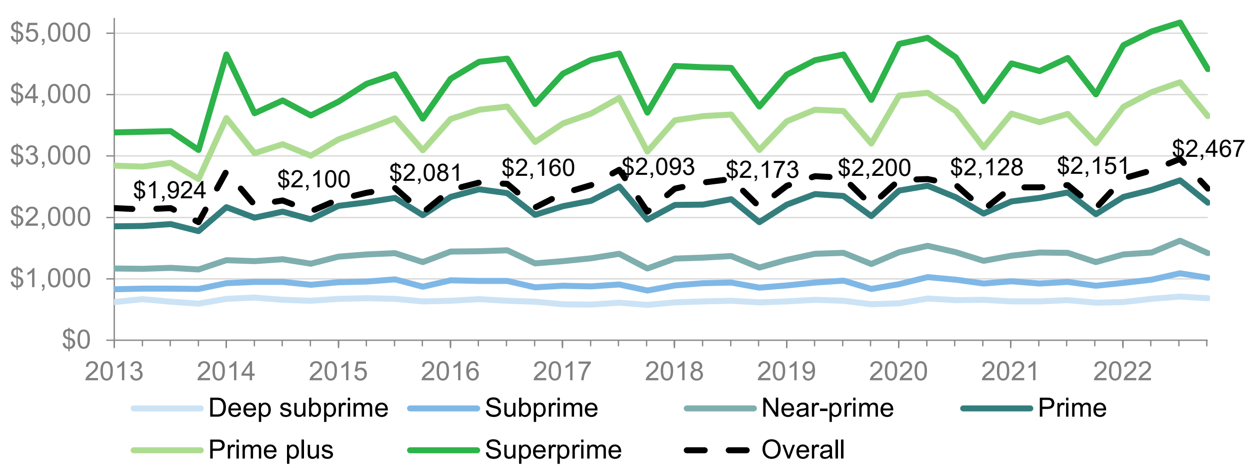
The average credit line on new general purpose accounts remains within the historic range for consumers in all credit score tiers, with recent increases in total new credit attributable to a greater number of new accounts. The average new line in 2022 remained near typical nominal levels slightly above $5,000 and did not change significantly by tier in 2021 and 2022. Issuers continue to offer much higher credit lines to consumers with better credit scores—new cardholders with superprime scores received almost $12,000 in available credit in 2022, while those with near-prime scores could expect less than a fourth of that, $2,750.

FIGURE 14: QUARTERLY AVERAGE CREDIT LINE ON NEW ACCOUNTS, GENERAL PURPOSE (CCP)



Like general purpose cards, average credit lines on new private label cards remain largely within their typical range in all credit score tiers. The average new private label card comes with roughly $2,500 in credit line. Private label cards originate with less than half the credit line of general purpose cards in the superprime or prime plus tiers. However, private label accounts for cardholders in the subprime tier and below originate nearly two-thirds of the average new general purpose credit line. Even during the peak of the pandemic, average new private label credit lines remained largely unchanged, outside of expected seasonality.

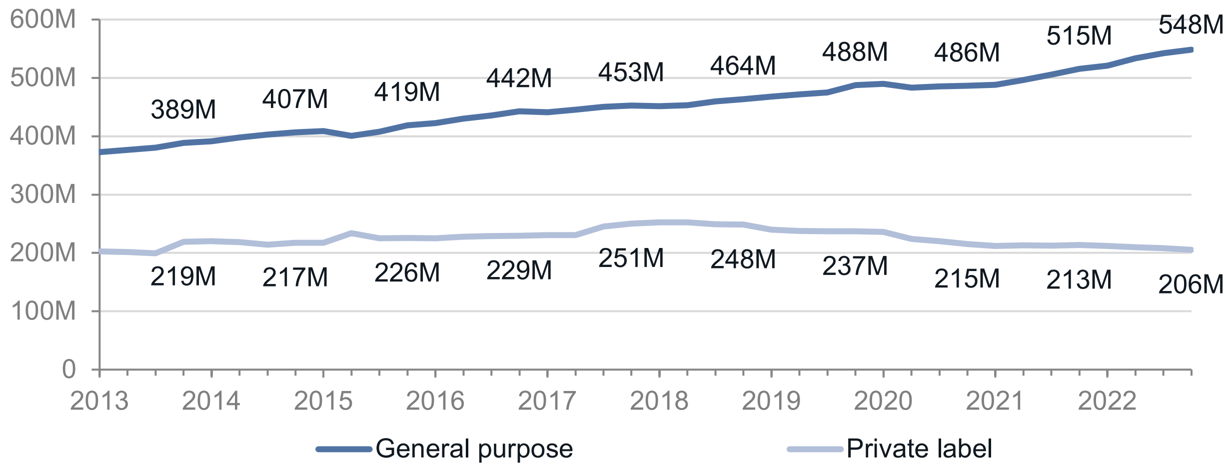
FIGURE 15: QUARTERLY AVERAGE CREDIT LINE ON NEW ACCOUNTS, PRIVATE LABEL (CCP)



5.2 Existing accounts

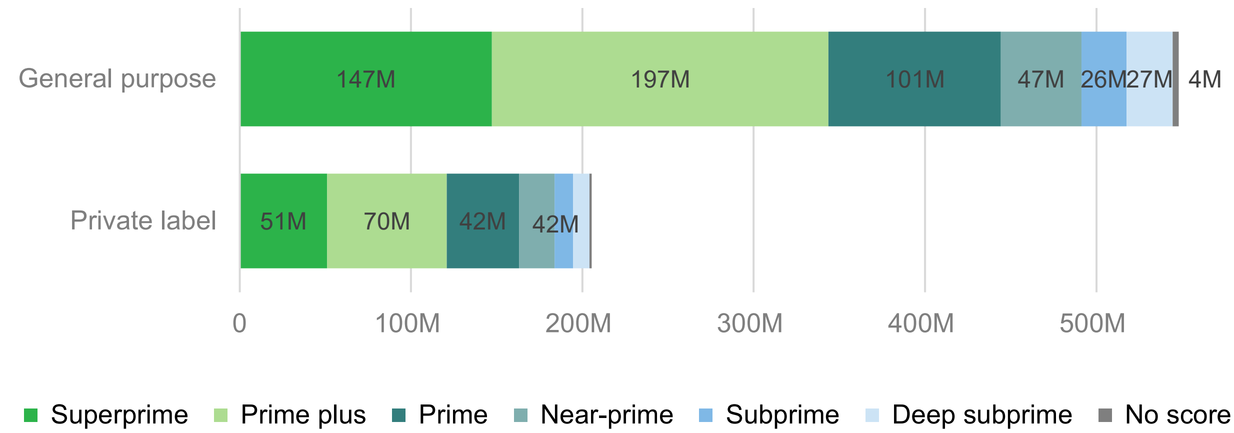
General purpose cards continued their long rise in prevalence, while private label cardholding has become relatively less common. By year-end 2022, there were 548 million open general purpose card accounts compared to 206 million open private label accounts. General purpose cards increased 12 percent from December 2019 to reach its highest number since at least 2013. Over that same period, the number of open private label accounts declined 13 percent overall.

FIGURE 16: QUARTERLY NUMBER OF OPEN CREDIT CARD ACCOUNTS (CCP)



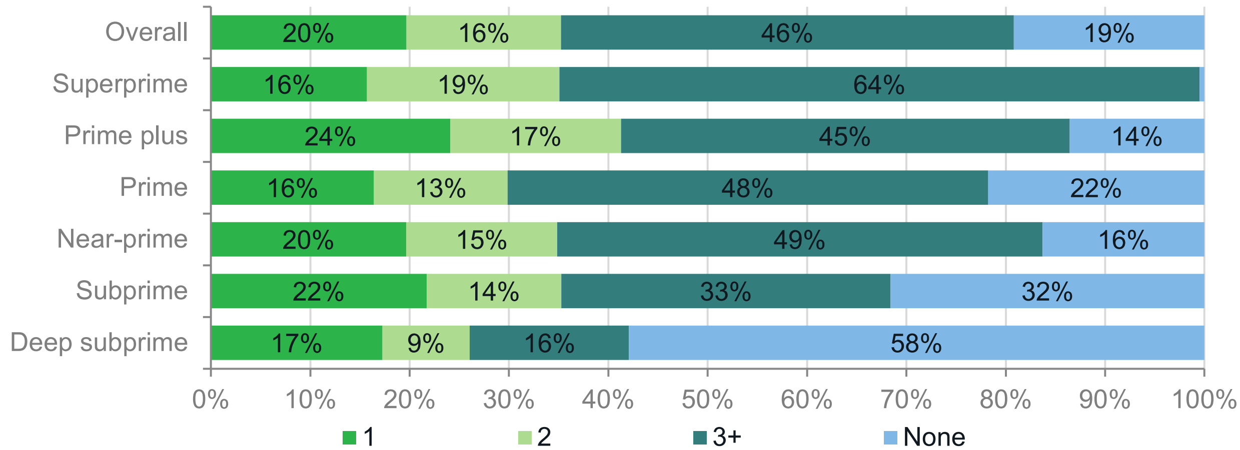
Cardholding is more common among consumers with higher scores, but a record number of more general purpose cards are held by those with lower scores. Most credit cards of either type are held by consumers with prime plus scores, followed by those with superprime scores. Altogether, cards held by consumers with prime and above scores make up 80.6 percent of all accounts. While every credit tier saw its highest number of general purpose accounts in our data in 2022, the number of private label accounts held by consumers with subprime and deep subprime scores remain low following major declines in 2020 and 2021.

FIGURE 17: CREDIT CARD ACCOUNTS, YEAR-END 2022 (CCP)



The typical credit card holder has multiple cards, and consumers with higher scores generally own more cards than those with lower scores. Nearly every person with a score above 800 has a credit card, while less than half of those with deep subprime scores do. Further, almost two-thirds of consumers with superprime scores have three cards or more, while only a third of cardholders with subprime scores have that many. Since consumers often carry more than one card, credit card issuers compete to acquire and retain "top-of-wallet" status as consumers' primary method of payment. Issuers must refresh product offerings and provide new benefits regularly to ensure cardholders reach for their product first at checkout or keep their card as the default option in a mobile wallet. Issuers depend on their card being consumers' top-of-wallet card to maintain interchange revenue, grow interest-incurring balances, and gain marketable insights on customer spending.

FIGURE 18: SHARE OF SCORED CONSUMERS BY NUMBER OF CREDIT CARD ACCOUNTS BY CREDIT SCORE TIER, YEAR-END 2022 (CCP)

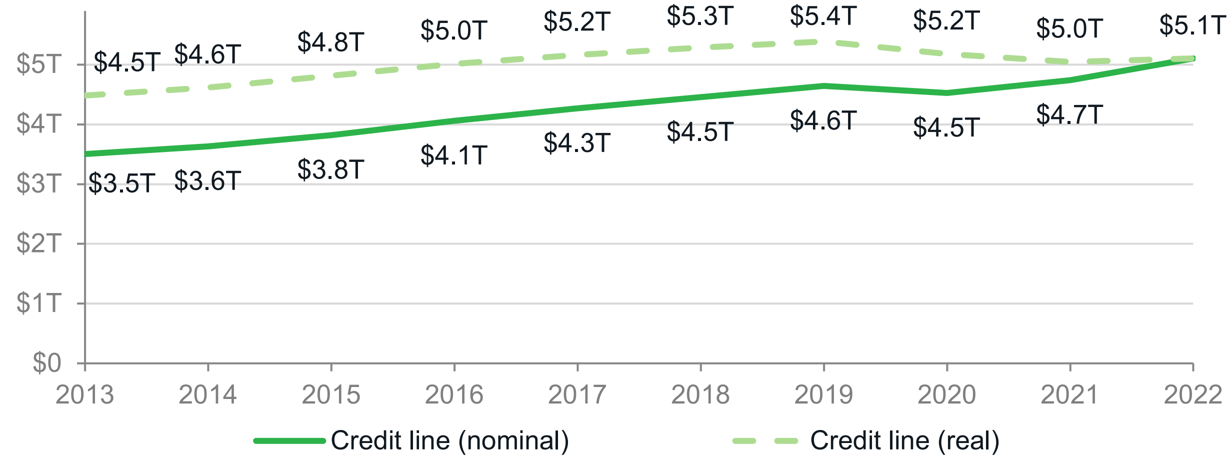


5.2.1 Existing account credit line

The total credit line available to U.S. consumers recovered from a slight pandemic dip in 2020 to reach a new high of $5.1 trillion by the end of 2022 but remains near historical levels after adjusting for inflation. Inflation-adjusted, total credit line on existing accounts in 2022 was below the levels seen between 2017 and 2020. This stability in real terms implies that approved lines shrank relative to consumer spending. Approved lines could have covered 32 percent of annual personal consumption expenditures from 2016 to 2020, but this ratio dropped to 30 percent in 2021 and 29 percent by 2022. [173]

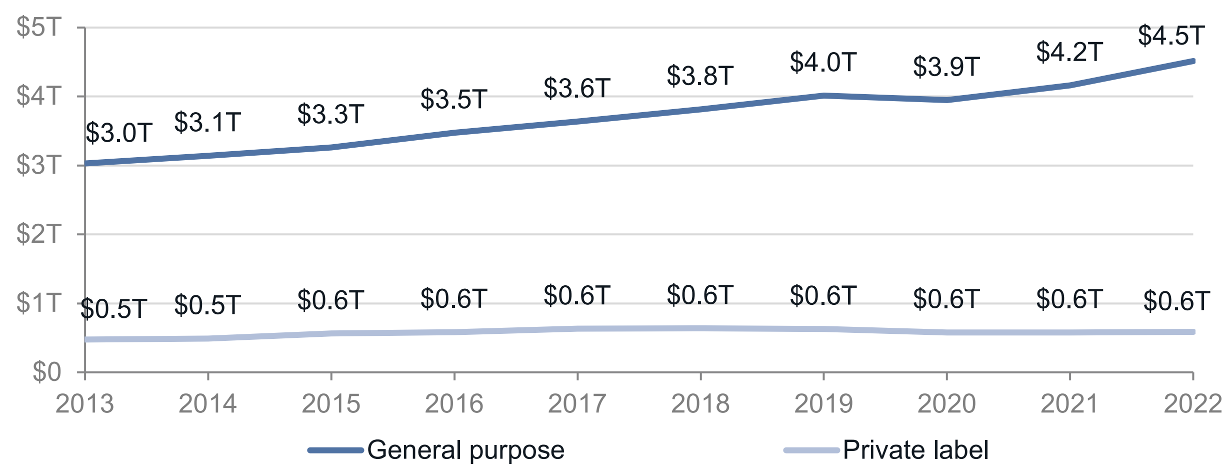
[173] *See* U.S. Bureau of Economic Analysis, *Consumer Spending*, https://www.bea.gov/resources/learning-center/what-to-know-consumer-spending (last accessed July 12, 2023).

FIGURE 19: CREDIT LINE ON EXISTING ACCOUNTS, NOMINAL AND INFLATION-ADJUSTED (CCP)



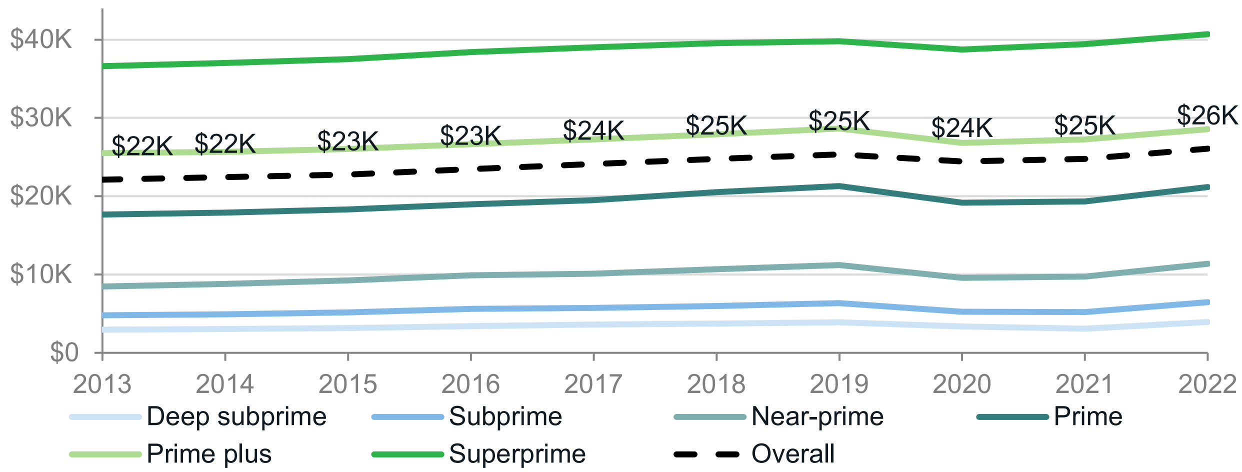
Credit line by card type shows a flat-to-shrinking private label segment but more movement among general purpose cards, with record-breaking lines in both 2021 and 2022 ($4.2 trillion and $4.5 trillion, respectively, as shown in Figure 20). As such, the changes in Figure 19 above are entirely attributable to shifts in the general purpose credit card market. Private label credit line has generally remained stable over the past decade and has been declining in real dollars after adjusting for inflation, providing additional evidence of reduced demand for private label cards as discussed in the previous section.

FIGURE 20: TOTAL CREDIT LINE ON EXISTING ACCOUNTS (CCP)



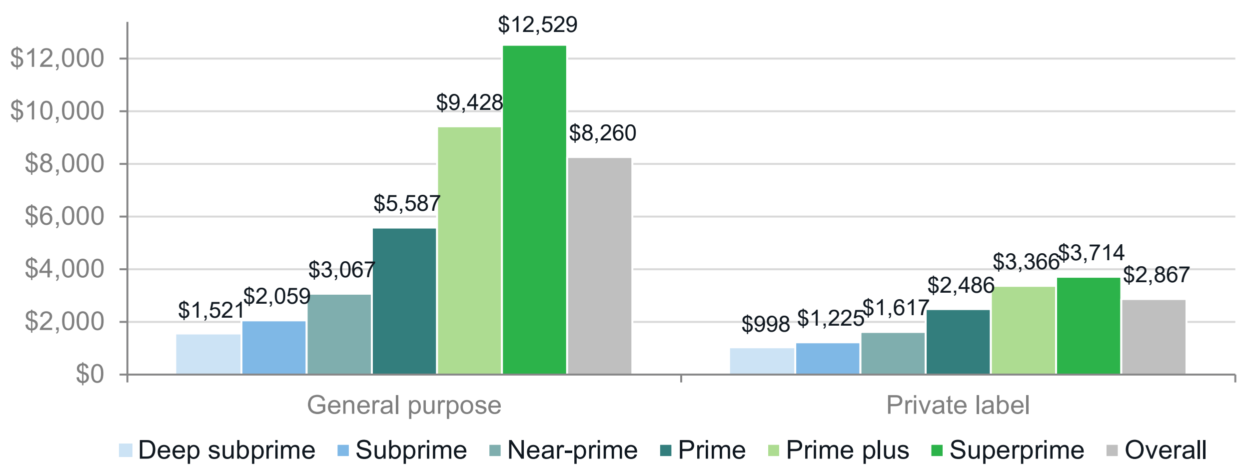
Average line per cardholder across all private label and general purpose accounts returned to steady growth for all tiers following a dip in 2020. In 2022, credit line per cardholder reached $26,000, surpassing its previous high from 2019. Consumers with superprime scores had more than $40,000 in average approved lines for the first time. As expected, consumers with lower credit scores had lower average credit lines. However, credit lines have across tiers, with average lines 1.5 to 2.2 percent above 2019 levels for cardholders with superprime, near-prime, and subprime scores, and a recovery to 2019 levels for all other tiers.

FIGURE 21: AVERAGE CREDIT LINE PER CARDHOLDER (CCP)



Per capita differences in credit line partly result from some consumers having more cards than others, but those with higher scores also have larger limits on each card. General purpose card limits also have a steeper gradient in line by score: the average superprime general purpose card had a credit line eight times higher than a deep subprime general purpose card account in 2022. On the other hand, the average superprime private label card had a credit line just under four times as high as a deep subprime private label card account in 2022.

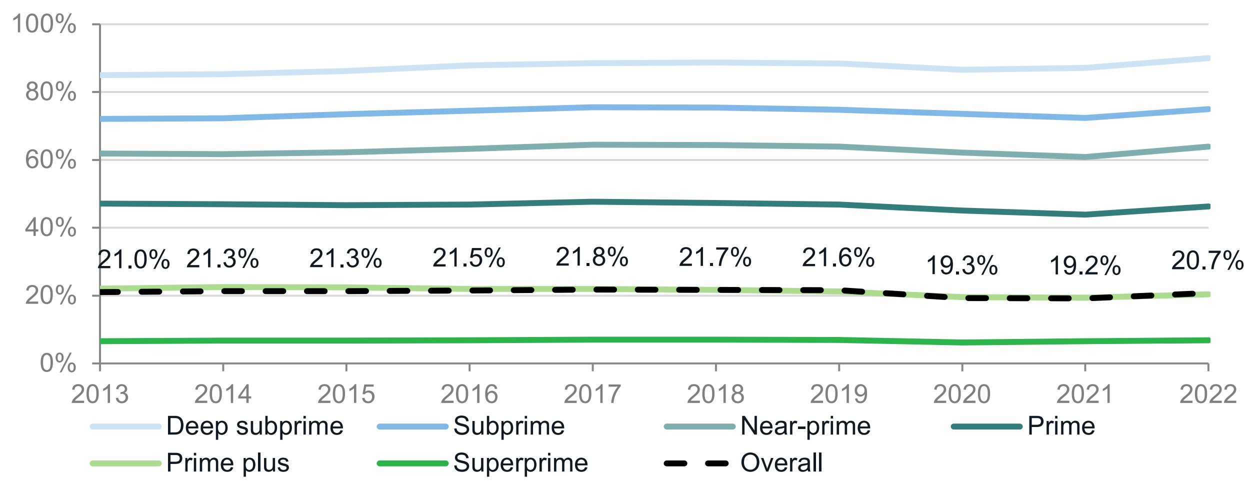
FIGURE 22: AVERAGE CREDIT LINE PER ACCOUNT, END OF YEAR 2022 (CCP)



5.2.2 Utilization

Average general purpose card utilization increased in 2022 for cardholders in all credit score tiers, reversing the pandemic trend of lower utilization observed from 2020 to 2021. Consumers used 20 percent of their approved credit for general purpose cards in 2022, up from 19 percent in 2020. Despite overall increases in the total dollar value of credit line available over the past decade, utilization has been remarkably stable as the portion of credit line that was *unused* rose in tandem. The overall decrease in the utilization rate to 19.3 percent in 2020 and 19.2 percent in 2021 from more than 21.5 percent the four prior years was a historically-large deviation.

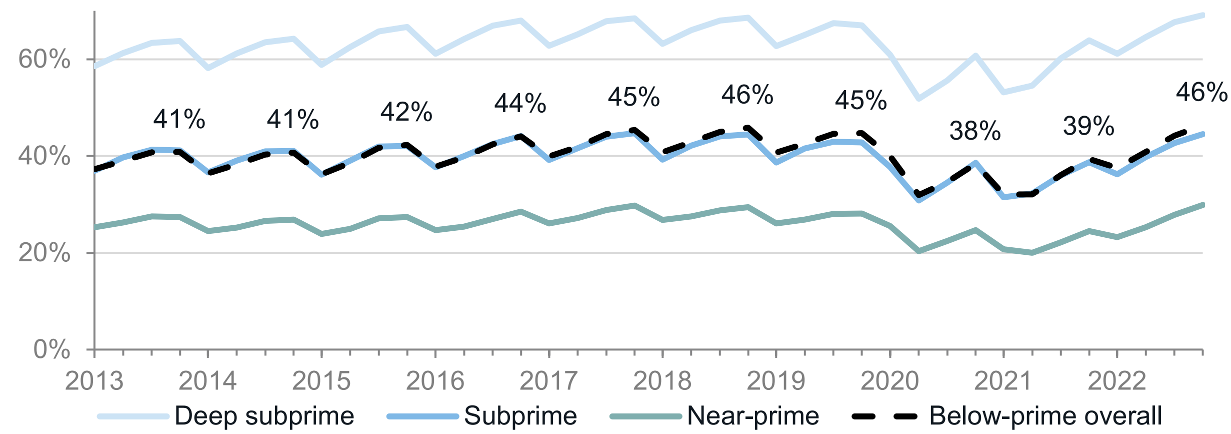
FIGURE 23: AVERAGE UTILIZATION RATE BY CREDIT SCORE TIER, GENERAL PURPOSE (CCP)



The share of consumers with below-prime scores who have used 90 percent or more of their general purpose credit line reached record lows in 2020 but matched record highs by the end of 2022. Since 2013, slightly more than two-fifths of consumers with below-prime scores met or exceeded this threshold of limited available credit as shown in Figure 24. This measure dropped to 31.9 percent in the second quarter of 2020 but reached 46.4 percent by the holiday season of 2022. For cardholders with deep subprime or near-prime scores, the share using more than ninety percent of their credit line were at their highest levels observed in the data (69.1 percent and 29.9 percent, respectively).[174]

[174] These rates are about 30 percent lower than what was reported in the 2021 Report, *supra* note 3, at 80, due to a prior coding error.

FIGURE 24: QUARTERLY SHARE OF BELOW-PRIME CARDHOLDERS WITH AT LEAST 90 PERCENT UTILIZATION ACROSS ALL CARDS, GENERAL PURPOSE (CCP)



5.2.3 Credit line management

Credit lines on existing accounts are not static. Issuers can increase or decrease them without consumer consent. The CARD Act's ability-to-pay requirements restrict credit line increases (CLIs) to a certain extent, but issuers confront more substantial regulatory restrictions on repricing existing balances.[175] Previous research published by the CFPB suggests issuers may use line management to respond to default risk revealed post-origination or changes in nationwide economic conditions.[176]

CREDIT LINE INCREASE

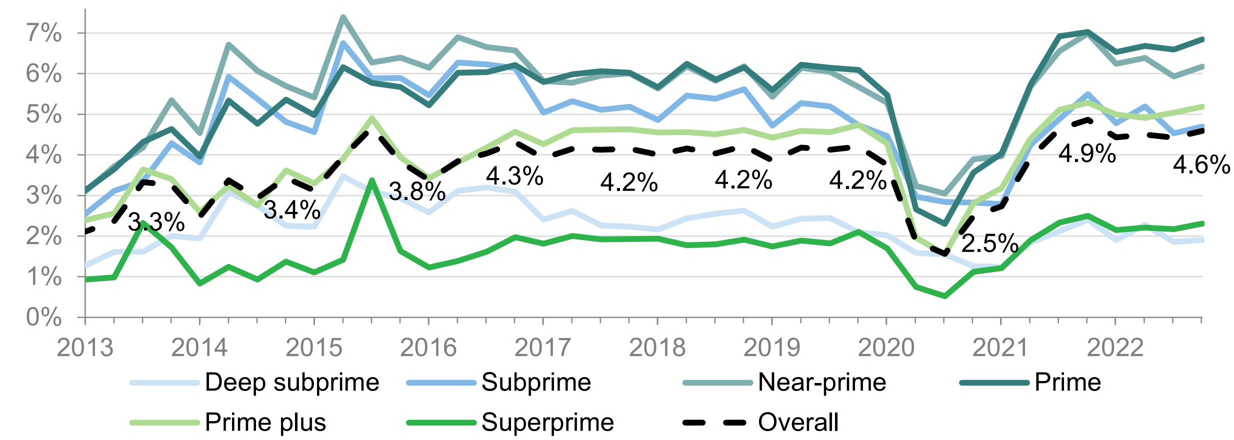
The end of 2021 showed the highest activity in CLIs among all years with comparable data, with 2022 continuing at elevated rates. The amount of the increase is largely proportional to credit limit, though cardholders with lower scores experience a lower percentage increase. As shown in Figure 25, quarterly CLI incidence in 2020 reached 2.5 percent for general purpose cards. Prior to the pandemic, four percent of accounts received a CLI. CLI rates were steady in 2021, on average, and increased to an average quarterly incidence of 4.6 percent throughout 2022. Market-wide, CLIs are most common on middle-tier cards; while near-prime and prime cards show the highest CLI rates on record, subprime CLIs became notably less common than from 2014 to 2017. Private label credit line increase activity has rebounded to only half of their pre-

[175] The ability-to-pay rules require that issuers consider an applicant's ability to pay the minimum monthly payment on an account prior to opening a credit card account under an open-end (not home-secured) consumer credit plan or increasing a credit line on such an account. 12 CFR 1026.51(a)(1)(i). *See also* 15 U.S.C. § 1665e (2012). Repricing of existing balance is only allowed under a set of relatively narrow circumstances. *See* 12 CFR 1026.55(b).

[176] *See* 2017 Report, *supra* note 3, at 158 to 162.

pandemic levels. In this segment, all tiers below prime plus saw dampened activity relative to 2013 to 2016.

FIGURE 25: QUARTERLY CREDIT LINE INCREASE INCIDENCE, GENERAL PURPOSE (CCP)



Issuer-initiated CLIs, a common part of card issuers' risk management strategy, have more than rebounded since falling during the pandemic, with mixed outcomes for consumers. Four-fifths of CLIs are "proactive" (initiated by the card issuer), while the rest are "reactive" (in response to a consumer request).[177] Proactive credit line increases (pCLIs) are used by card issuers to manage risk—issuers often provide higher-risk consumers lower lines at origination and then increase credit availability after the cardholder exhibits desirable repayment patterns.[178] This strategy could explain why large issuers have given pCLIs to consumers with mid-tier scores at double or even triple the rate of the highest and lowest scoring cardholders. However, some academics have found that consumers keep a fairly consistent utilization rate, even after changes in total available credit, and suggest that pCLIs may induce increased borrowing and persistent debt by consumers.[179] Other countries like Canada, Australia, and the United

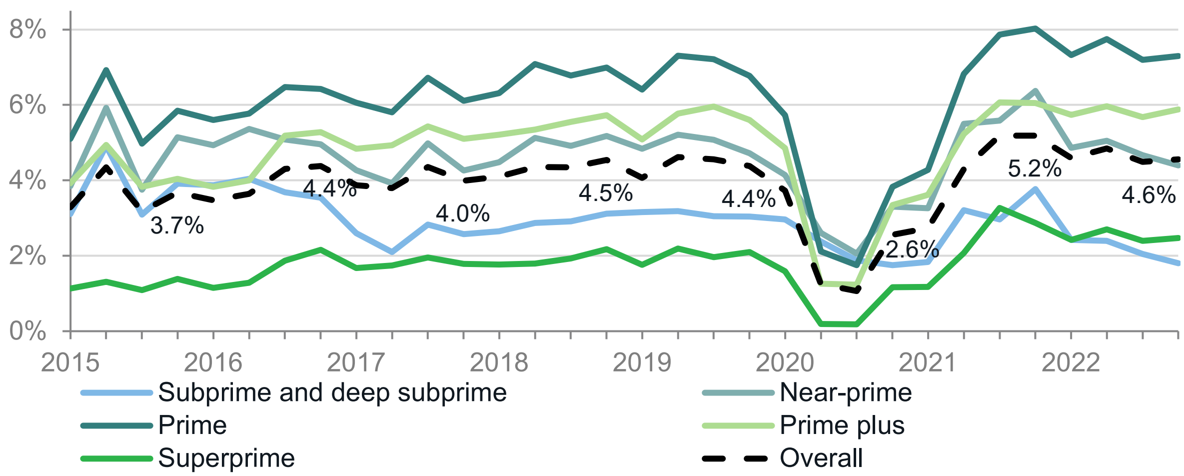
[177] Only about one-third of reactive CLI requests are approved. Very few are denied for ability-to-pay reasons, most are due to issuers' underwriting criteria and risk appetite. *See* 2017 Report, at 155.

[178] Issuers have few limits on pCLIs in the first year after account opening. However, after that, most large issuers need to receive updated income from a consumer, per Office of the Comptroller of the Currency guidance on modeled income, prior to initiating a pCLI. *See* 2017 Report, at 158.

[179] *See* Scott Fulford and Scott D. Schuh, *Credit Card Utilization and Consumption Over the Life Cycle and Business Cycle,* FRB of Boson Working Paper No. 17-14, (Sep. 2017), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3095890.

Kingdom have regulated pCLIs for this reason.[180] However, issuers argue pCLIs also allow them to provide increased credit access to consumers with lower scores and provide a mechanism for increasing available credit in times of inflation or in case of emergency. Additionally, consumers who keep their balances at the same level as prior to the increase often experience a positive credit score impact as their utilization decreases. While consumers can also ask for a higher credit limit, typically reflecting increased demand or need for credit, only about one third of requests result in a reactive credit line increase (rCLI).[181]

FIGURE 26: QUARTERLY PROACTIVE CREDIT LINE INCREASE INCIDENCE, GENERAL PURPOSE (Y-14)



CREDIT LINE DECREASE

The third quarter of 2020 saw a decadal peak in credit line decreases (CLDs) as 1.6 percent of general purpose accounts saw a decrease in credit line in response to the pandemic, with the sharpest rise in superprime CLD rates. Before and after the pandemic, a higher percentage of consumers with below-prime scores experienced CLDs. The annual average incidence of general purpose card CLDs (1.2 percent) in 2020 were the highest since 2013. The average rate of 0.8 percent for both 2021 and 2022 are in line with pre-pandemic averages from 2015 to 2018. The COVID-19 pandemic thus appears to only cause a short-lived increase in CLD rates.

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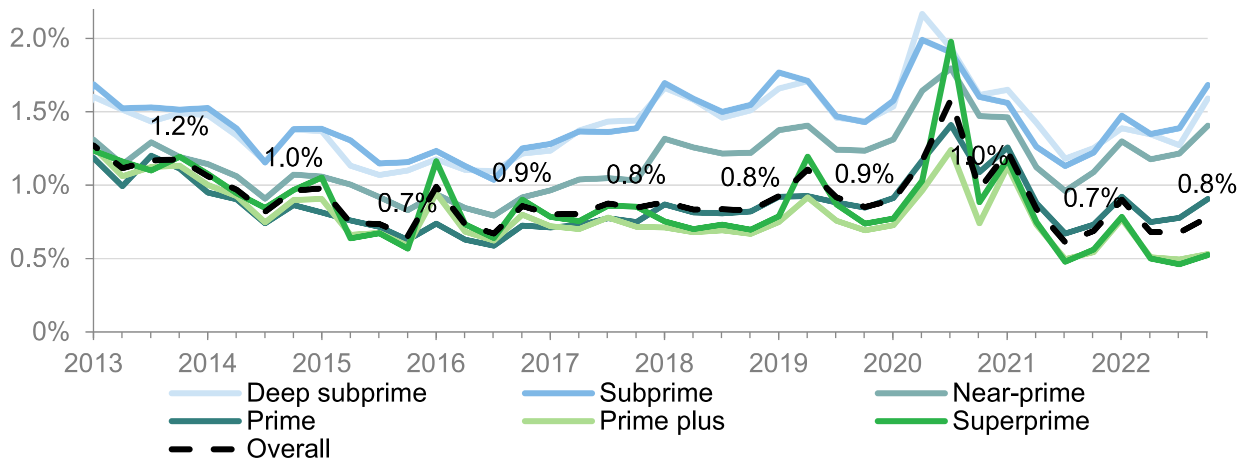
[180] *See, e.g.*, Canada's Credit Business Practices Regulations, SOR/2009-257, 6(1). *See also* Financial Conduct Authority, *New credit card rules introduced by the FCA*, (Feb. 27, 2018), https://www.fca.org.uk/news/press-releases/new-credit-card-rules-introduced-fca.

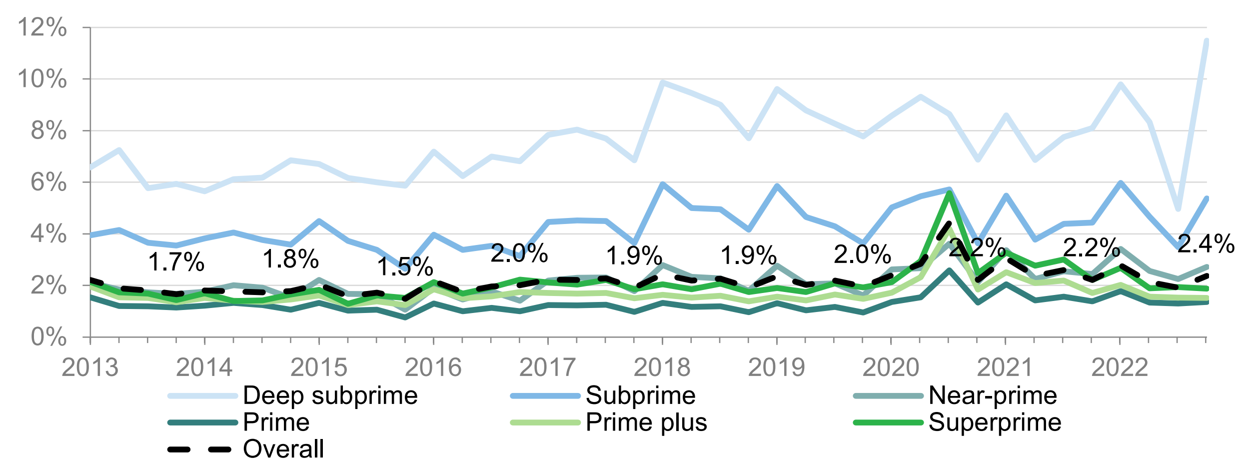
[181] *See* 2015 Report, at 113.

FIGURE 27: QUARTERLY CREDIT LINE DECREASE INCIDENCE, GENERAL PURPOSE (CCP)



Private label cards experience CLDs three times as often as general purpose accounts, with particularly elevated frequencies for deep subprime cards. For private label cards, CLDs grew from an average incidence of 2.1 percent in 2019 to a 4.4 percent annualized rate in the third quarter of 2020. The median cut to available credit line is large, between 30 and 70 percent of available credit. The average rates of 2.6 percent and 2.3 percent for 2021 and 2022 are still lower than the 2020 average of three percent. For this segment as well, the peak (of 5.7 percent annualized) in subprime CLDs in the third quarter of 2020 was the most significant deviation from historical and seasonal trends.

FIGURE 28: QUARTERLY CREDIT LINE DECREASE INCIDENCE, PRIVATE LABEL (CCP)



ACCOUNT CLOSURE

As noted in the 2021 Report, roughly two percent of accounts are closed each year. The data do not distinguish between voluntary—initiated by the consumer—and involuntary—initiated by the creditor—closures. Figures 29 and 30 show that for both general purpose and private label accounts, closures increased in 2020, leveled off, and then increased again in 2022. Closures are most common for cardholders with deep subprime credit scores. This result may be automatic based on servicing data insights and delinquency trends; at the point an account is closed by an issuer, the consumer may be delinquent, which adversely affects their credit scores.

FIGURE 29: QUARTERLY ACCOUNT CLOSURE INCIDENCE, GENERAL PURPOSE (CCP)

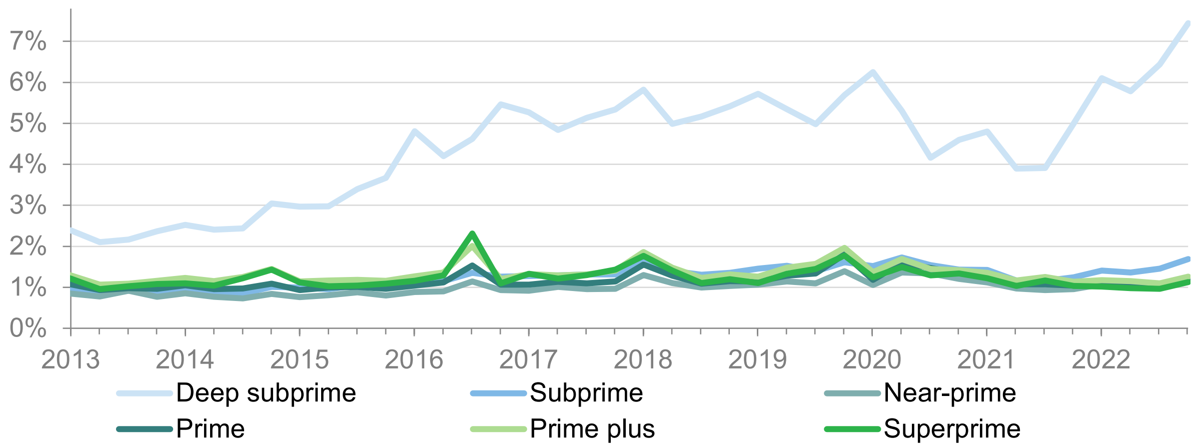
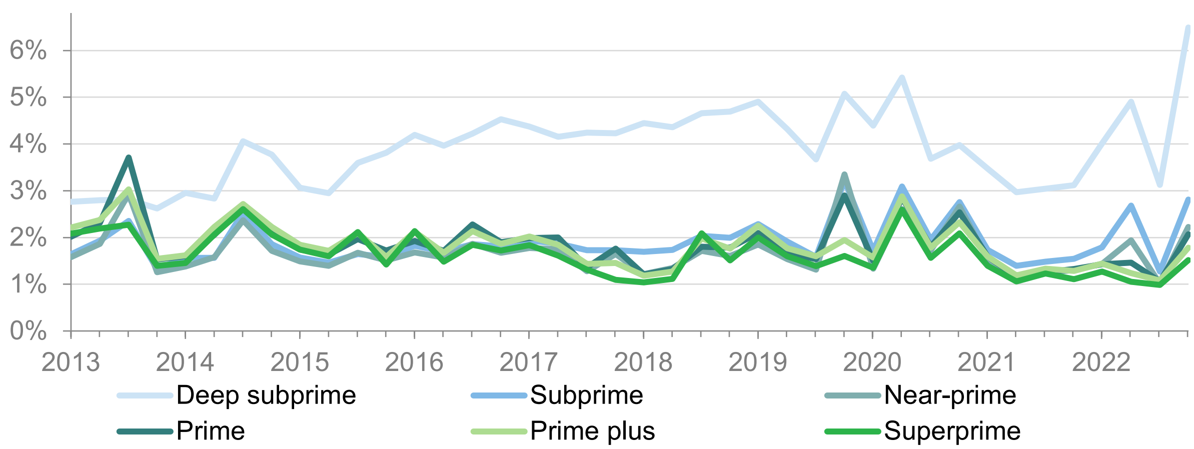


FIGURE 30: QUARTERLY ACCOUNT CLOSURE INCIDENCE, PRIVATE LABEL (CCP)



6. Practices of credit card issuers

In the CARD Act, Congress directs the CFPB to review "the terms of credit card agreements and the practices of credit card issuers" and "the effectiveness of disclosure of terms, fees, and other expenses of credit card plans." [182] In this section, we examine the following: rewards, installment plans, balance transfers, cash advances, over-limit transactions, dispute resolution, account servicing, and debt collection. For each, we highlight its prevalence, cost, and any new developments.

6.1 Rewards

Rewards programs remain a key feature of credit cards, affecting consumer product choice and serving as a competitive battleground for issuers. Rewards frequently drive originations, as consumers report rewards and sign-up offers are the top factors influencing their shopping decisions. [183] After a consumer chooses to open a card, rewards continue to play a major role, often determining card choice at point-of-sale. [184] The fight for both new customers and "top-of-wallet" status for existing cardholders has intensified competition on rewards offerings in the past two years. [185] With a decrease in credit card debt during the pandemic, [186] issuers turned to increased rewards earning rates and record welcome offers to incentivize applications and grow balances. Many cardholders have benefited from this competition in credit card rewards, but the earnings are not evenly distributed; higher score, transacting accounts earning a disproportionate share, as discussed in Section 6.1 above. Additionally, some researchers

[182] 15 U.S.C. § 1616(a)(1)-(2).

[183] J.D. Power, *Death of Airline Miles Rewards Cards Greatly Exaggerated* (June 23, 2021), https://www.jdpower.com/business/resources/death-airline-miles-rewards-cards-greatly-exaggerated.

[184] *Cardholder Engagement Is A Matter Of Loyalty*, PYMNTS (Nov. 24, 2022), https://www.pymnts.com/news/loyalty-and-rewards-news/2020/cardholder-engagement-is-a-matter-of-loyalty/.

[185] In 2022, six of the biggest issuers reported spending a combined $68 billion on them in 2022, more than 40 percent more than in 2019. *See* Telis Demos, *Credit Card Rewards Are Heading Toward a Crisis* (Apr. 2023), https://www.wsj.com/articles/the-pandemic-didnt-end-card-rewards-it-made-them-stronger-20fd03c9.

[186] See Section 3.

suggest non-card (or cash) users end up paying more in prices to subsidize the interchange rates funding the credit card rewards ecosystem.[187]

This report builds on findings from prior reports, using new data to provide a more complete picture of the rewards landscape. The first CARD report in 2013 identified concerns around transparency in rewards offers, noting that disclosures are often highly complex, with detailed rules regarding the eligibility for sign-up bonuses, the value of earned points, the rate at which they are earned, and the rules governing their forfeiture.[188] In the 2015 Report, the CFPB examined the terms of rewards programs, finding that consumers rarely have access to the full terms of rewards programs prior to applying for a credit card.[189] In the three reports since, we've continued tracking the prevalence of rewards alongside their cost and further developments.[190] In this section, we present new data on the value of rewards balances, redemptions, forfeiture, and sign-up bonuses to benchmark growth and provide readers with context for examining how rewards fit within the greater consumer credit card market.

6.1.1 Prevalence

Rewards cards continue to make up most accounts and spending on credit cards, but they are less prevalent in credit tiers with lower scores. Three-fourths of general purpose accounts at mass market issuers in 2022 were rewards cards, unchanged since 2020. While rewards cards have become more common for consumers in lower score tiers, only half of accounts associated with subprime scores had the ability to earn rewards, compared to 85 percent of superprime cardholders. After increasing from 2015 through 2019, the share of general purpose credit card spending accounted for by rewards cards has largely leveled off at above 90 percent. That plateau is true overall and specifically for cardholders with scores above 720, but growth in spending on rewards cards has notably continued for cardholders with lower credit scores. By the end of 2022, even accountholders with deep subprime scores put more than 65 percent of

[187] This may be the case when merchants charge customers the same price, regardless of payment method (*e.g.,* does not offer a cash discount). One paper found, "on average, each cash-using household pays $149 to card-using households and each card-using household receives $1,133 from cash users every year." *See* Scott Schuh, Oz Shy, and Joanna Stavins, *Who Gains and Who Loses from Credit Card Payments? Theory and Calibrations*, Federal Reserve Bank of Boston (2010), https://www.bostonfed.org/publications/public-policy-discussion-paper/2010/who-gains-and-who-loses-from-credit-card-payments-theory-and-calibrations.aspx.

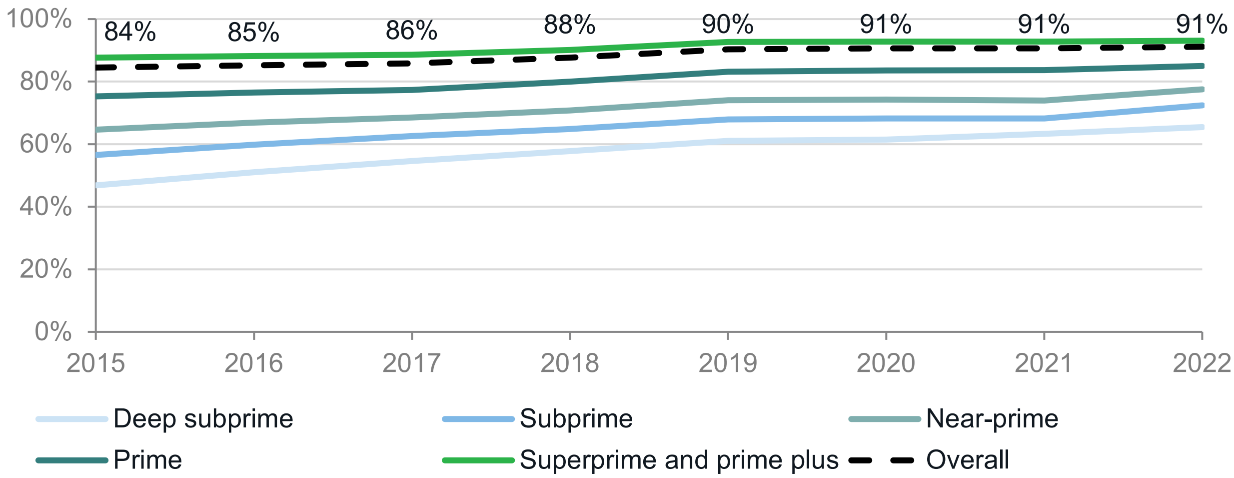
[188] 2013 Report, *supra* note 3, at 82.

[189] 2015 Report, *supra* note 3, at 230.

[190] 2017 Report, *supra* note 3, at 59; 2019 Report, *supra* note 3, at 99; 2021 Report, *supra* note 3, at 87.

their credit card purchase volume on rewards cards, and cardholders with near-prime scores used rewards cards for over three-fourths of their total credit card purchase volume.

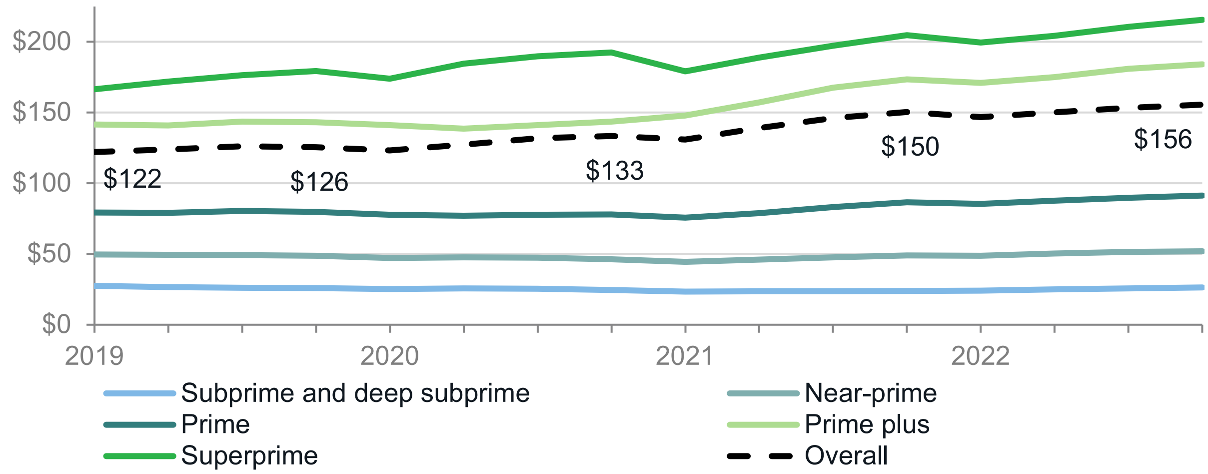
FIGURE 1: ANNUAL SHARE OF PURCHASE VOLUME ON REWARDS CARDS, GENERAL PURPOSE (Y-14+)



Rewards balances have risen over the past four years, with higher-score cardholders amassing larger balances of unspent rewards. [191] For cardholders with rewards accounts, total rewards balances at the end of 2022 were more than $33 billion, up 40 percent relative to the fourth quarter of 2019. On average, each reward account has over $150 in unspent value associated with a major issuer's branded rewards program. Rewards balances are higher for those with higher credit scores; those in the prime plus and superprime tiers appear to be banking increasingly more rewards relative to those with below-prime scores. Consumers amassed greater rewards in 2021 as spending increased relative to rewards redemptions and still had not redeemed their earned rewards by the end of the period studied.

[191] Rewards balances are defined as the value of rewards earned but not yet redeemed or forfeited, excluding proprietary rewards managed by a co-brand partner and not available to the issuer.

FIGURE 2: QUARTERLY DOLLAR VALUE OF AVERAGE REWARDS BALANCES, GENERAL PURPOSE (MMI)

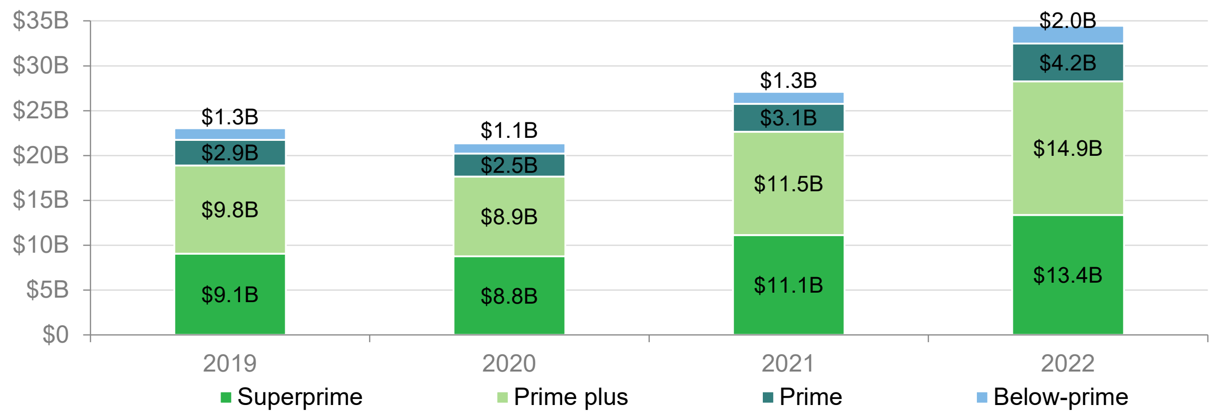


6.1.2 Cost

The dollar value of redeemed rewards increased in 2021 and again in 2022, with the vast majority of redemptions occurring for cardholders with scores above 720. Based on available data for general purpose cards, issuers reported that consumers redeemed almost $35 billion in rewards. This estimate excludes the considerable value of points or miles earned on co-brand cards with separate loyalty programs, like airlines and hotels. The average rewards-earning account redeemed $167 in 2022, a 44 percent increase from 2020 levels of $115. Rewards redemptions are fairly in-line with the distributions of accounts across credit score tiers but are somewhat skewed toward those in higher score tiers: accounts with prime plus and above scores redeem about 80 percent of rewards and represent 67 percent of general purpose rewards cards at mass market issuers. Below-prime cardholders make up 14 percent of rewards accounts yet account for only six percent of rewards redemptions. The value of rewards redeemed pales in comparison to the cost of revolving debt, and, particularly for cardholders with lower scores facing higher interest rates and fees, may obscure the true cost of borrowing. [192]

[192] *See* Section 4.4 for more information on the net cost of credit.

FIGURE 3: DOLLAR VALUE OF REWARDS REDEEMED, GENERAL PURPOSE (MMI)



The value of reward redemption varies widely based on the type of reward and the reward program, with terms that can be complex for some consumers.[193] Cash back redemption is the most straightforward, as statement credits directly reduce balances for cardholders, while points and miles are more likely to be used for travel purchases like hotels or flights. The "cost-per-point" of points and miles redemptions to issuers vary significantly; for example, companies may provide more value for some flights at certain dates and times than others. Points and miles reward values may change at the issuer's or program manager's discretion. At times, limited-time redemption promotions or across-the-board devaluations may occur without advance notice to cardholders. Over the past decade, a growing industry has emerged to direct consumers to more lucrative redemptions, highlighting the complexity and range of rewards programs.[194]

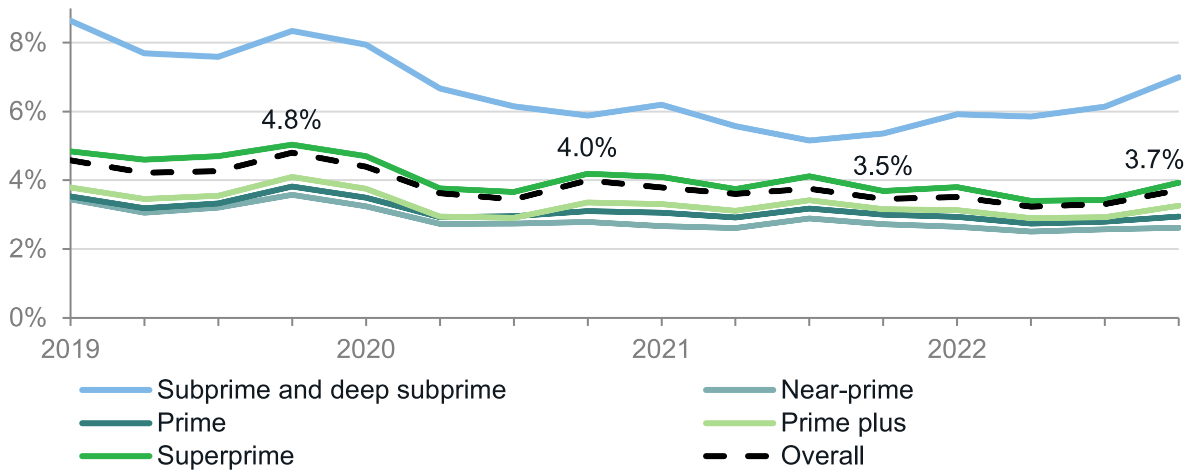
Rewards forfeiture has declined over the past three years but remains relatively more common for cardholders with subprime credit scores. In some cases, cardholders can lose access to accrued rewards through account closure or reward point expiration. Each quarter, about four percent of accounts forfeit some previously earned rewards, translating to about $500 million in rewards per year. During the pandemic, the forfeiture rate declined from 4.8 percent (associated with $166 million in forfeited rewards value) in the fourth quarter of 2019 to 3.2 percent (with $115 million in rewards forfeited) in the second quarter of 2022. It is highest for consumers with

[193] Trade groups provided comments that cardholders find rewards program easy to use and navigate. See ABA, CBA, and NAFCU comment at 8 through 10. However, some consumers submitted comments to the contrary. See Melissa Holt and David Mandel comments.

[194] Jamie Lauren Keiles, *The Man Who Turned Credit-Card Points Into an Empire*, The New York Times (Jan. 5, 2021), https://www.nytimes.com/2021/01/05/magazine/points-guy-travel-rewards.html.

subprime scores, then followed by those in the superprime score tier. When rewards are forfeited, the dollar loss averages $10 to $30 per account.

FIGURE 4: QUARTERLY REWARDS FORFEITURE INCIDENCE, GENERAL PURPOSE (MMI)



Issuer rewards forfeiture practices vary in their relative customer friendliness, so much so that one state is taking steps to protect rewards balances from revocation. Many consumers lose all rewards balances upon account closure (either by the issuer or cardholder), and some issuers place expiration dates on rewards. At least one issuer revokes all rewards earned in a cycle in the event of a late payment and charges consumers an optional fee for reinstatement after curing the delinquency.[195] Alternatively, another company credits the account or sends a physical check with the equivalent cash-back value of rewards in the case of account closure. In 2021, the state of New York passed a law providing a 90-day grace period for the use of credit card reward points before an account is modified, canceled, closed, or terminated and requiring notification at least 45 days prior to major changes in rewards program terms.[196] The CFPB will continue to monitor developments in rewards program disclosures and forfeiture practices given the importance of these benefits in consumers' credit card decision-making and the dollar value of these rewards.

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[195] *See, e.g.,* American Express, *Why were Membership Rewards® points forfeited and how can I reinstate them?* (June 10, 2023), https://www.americanexpress.com/us/customer-service/faq.membership-rewards-points-forfeiture.html#:~:text=There%20is%20a%20%2435%20fee,the%20program%20Terms%20and%20Conditions.

[196] Jeremy McLaughlin, *Forthcoming New York Law Expands Protections for Credit Card Reward Points*, The National Law Review (July 14, 2022), https://www.natlawreview.com/article/forthcoming-new-york-law-expands-protections-credit-card-reward-points.

6.1.3 Developments

Credit card sign-up bonuses play an increasing role in competition between issuers, representing a growing share of rewards earned, as such, we discuss them as a separate topic below. Sign-up bonuses are lump-sum incentives offered to consumers for a certain level of spending within a set number of months upon opening the card represented seven percent of total rewards earned but declined to 5.3 percent in 2020. It grew back to 7.7 percent in 2021 and later reached 9.1 percent of total reward earnings in 2022. Almost one-in-ten dollars earned in rewards overall, and closer to one-in-five for consumers with below-prime scores, is now associated with these welcome offers.

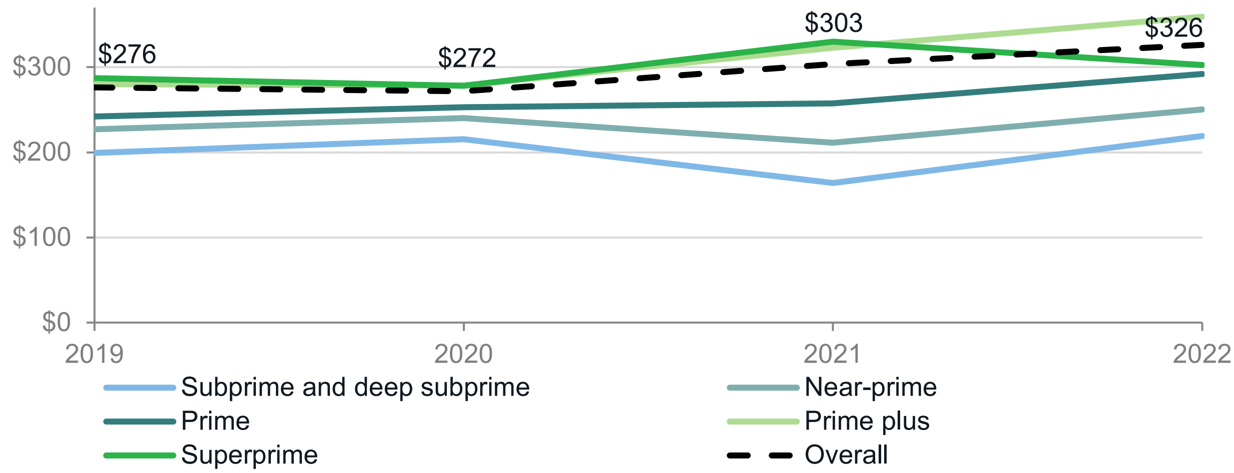
In 2022, about one-fourth of cardholders eligible for a sign-up bonus failed to meet the requirements to earn the lump sum. Typically, this occurs if a cardholder does not make at least a minimum spending threshold set for earning the bonus. Not receiving the expected sign-up bonus can spur consumer protests. In our 2015 report, we noted that sign-up bonuses were the single largest driver of complaints to the CFPB regarding rewards credit cards in general.[197] Additionally, the failure of issuers to honor their promised credit card account bonuses can cause consumer harm: in 2023, the CFPB took action against Bank of America for withholding credit card rewards associated with these sign-up bonuses.[198]

For the 73 percent of eligible cardholders who did earn the lump sum, they received a sign-up bonus with an average value of $326. The share of eligible accounts earning rewards bonuses has remained similar across tiers and remained stable since 2019. However, the average value of these bonuses has increased over the past four years. As shown in Figure 5, the value of the average welcome offer earned has increased by $50, or almost 20 percent, since 2019 with prime plus cardholders seeing the greatest increase in value.

[197] 2015 report, *supra* note 3, at 230.

[198] CFPB, CFPB Takes Action Against Bank of America for Illegally Charging Junk Fees, Withholding Credit Card Rewards, and Opening Fake Accounts (July 11, 2023), https://www.consumerfinance.gov/about-us/newsroom/bank-of-america-for-illegally-charging-junk-fees-withholding-credit-card-rewards-opening-fake-accounts/.

FIGURE 5: AVERAGE DOLLAR VALUE OF REWARDS BONUS EARNED, GENERAL PURPOSE (MMI)



If an issuer that manages a rewards program goes out of businesses, cardholders remain liable for their debts but may lose their earned rewards. In the CFPB's 2021 Report, we detailed new forms of rewards from five issuers that offered cryptocurrency, student loan-related, and climate-focused rewards products. At the time of writing, two of the five are no longer taking applications.[199] In 2022, the cryptocurrency market faced existential challenges with the failures of FTX and BlockFi, among others.[200] Other companies that offered increased earning rates for specific types of purchases (like wine or fitness) have been unable to achieve adequate scale to compete with two-to-five percent cash back or points offers by major issuers.[201] Considering many Fintechs use credit card-as-a-service models and manage the rewards programs separately from the underlying loans,[202] it is possible cardholders will lose their accumulated rewards when the account is closed by an issuer after the failure of a partner but will still be required to pay off debt on the card issued by the sponsor bank. This situation could trigger confusion and frustration among consumers after rewards forfeiture and might lead to worse repayment outcomes and confusion regarding customers' account servicing rights.

[199] *See* Aspiration, *What do I need to know about Aspiration Zero being discontinued*, https://my.aspiration.com/faq/Aspiration-Zero%3EWhat-do-I-need-to-know-about-Aspiration-Zero-being-discontinued- (last accessed May 15, 2023). *See also* Sara Rathner, *BlockFi Rewards Credit Card Unavailable Following Bankruptcy Filing*, NerdWallet (Nov. 30, 2022), https://www.nerdwallet.com/article/credit-cards/blockfi-rewards-credit-card-unavailable-following-bankruptcy-filing.

[200] *See* Jae Bratton, *Crypto Credit Cards, Once a White-Hot Trend, Have Fizzled*, NerdWallet (Mar. 23, 2023), https://www.nerdwallet.com/article/credit-cards/crypto-credit-cards-have-started-to-fizzle.

[201] *See* Craig Joseph, *Niche Credit Card Rewards Were Having a Moment — What Happened?*, NerdWallet (May 17, 2023), https://www.nerdwallet.com/article/credit-cards/niche-credit-card-rewards-face-growing-pains.

[202] *See* Section 7.2.1.

An emerging theme in new products is rewards that attempt to reduce the costs of future homeownership for current renters. In partnership with Wells Fargo, the Bilt card offers rewards on rent payments made with their co-brand product without having to pay the two to five percent processing fee landlords typically charge for a credit card payment.[203] Bilt points are worth more when redeemed for a down payment than for other redemptions options.[204] Rocket Mortgage announced a new product in 2023 with five percent back when used on closing costs and two percent on mortgage balances.[205]

Major issuers continue to introduce additional benefits associated with exclusive access to events, products, or services either in lieu of or in addition to flat rewards earning rates but may restrict their use to a limited pool of cardholders. Credit card companies have stepped in as the gatekeeper of scarce resources like concert tickets,[206] lounge access,[207] and exclusive restaurant reservations.[208] This gives consumers who meet the underwriting standards for a premium card the option to "skip the line." With the return of travel and entertainment spending since the pandemic's onset, consumer demand for these experiences often exceeds supply. Some issuers are restricting benefits to only those with ever-more-expensive credit cards to preserve exclusive status.

6.2 Installment plans

Credit card installment plans ("IPs") provide cardholders with the option to repay credit card purchases in fixed monthly installments using their card's existing line of credit. At the time of

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[203] Press Release, Wells Fargo Partners with Bilt Rewards and Mastercard to Issue the First Credit Card that Earns Points on Rent payments without the Transaction Fee (Mar. 28, 2022), https://www.businesswire.com/news/home/20220328005120/en/Wells-Fargo-Partners-with-Bilt-Rewards-and-Mastercard-to-Issue-the-First-Credit-Card-that-Earns-Points-on-Rent-payments-without-the-Transaction-Fee.

[204] Bilt, *How do redeem points towards a down payment*, https://support.biltrewards.com/hc/en-us/articles/10377953401869-How-do-I-redeem-points-towards-a-down-payment- (last accessed July 19, 2023).

[205] Press Release, *Swipe or Tap Your Way To A Home: New Rocket Visa Signature Card Is The First Credit Card Designed with Homeownership in Mind* (Mar. 28, 2023), https://www.prnewswire.com/news-releases/swipe-or-tap-your-way-to-a-home-new-rocket-visa-signature-card-is-the-first-credit-card-designed-with-homeownership-in-mind-301783076.html.

[206] Capital One, *Capital One Announces Exclusive Taylor Swift Tour Presale* (Nov. 14, 2022), https://www.capitalone.com/about/newsroom/taylor-swift-the-eras-tour-presale/.

[207] Anderw Kunesh, *Reminder: Big changes to who can access Delta Sky Clubs start Thursday*, NerdWallet (Feb. 1, 2023), https://thepointsguy.com/news/sky-club-access-changes/.

[208] Victoria Walker, *An American Express Airport Lounge in the Sky? Not Quite.,* The New York Times (May 14, 2023), https://www.nytimes.com/2023/05/14/realestate/american-express-centurion-lounge-nyc.html.

writing, five of the ten largest general purpose credit card issuers offer this feature in some capacity. Each of these programs was launched between 2017 and 2021, coinciding with the increasing popularity of "buy now, pay later" ("BNPL") loans.

Most installment plans include amortized interest charges or fixed finance charges and are a part of the overall credit card account balance but are subject to a separate set of terms and conditions. For the duration of the installment plan, the monthly payment (generally including a portion of the principal amount plus a financing fee), is added to a cardholder's minimum monthly payment. If a cardholder pays off their entire outstanding balance, excluding the amount outstanding on the installment plan, the prevailing issuer practice is that they will maintain their grace period, not incurring interest on non-IP purchases.[209] Credit card issuers may offer installment plans on a qualifying item, a group of qualifying items, or a qualifying amount.

The credit card installment plans examined in this report are provided as a feature exclusive to certain existing cardholders, with restrictions that vary across issuers.[210] The eligibility for these plans and the corresponding terms are determined at the discretion of the card issuers. Issuers consider factors such as creditworthiness, amount of available credit, and account history, among others, to determine cardholder eligibility for installment plans. In addition to eligibility restrictions, card issuers also impose restrictions on the types of transactions that qualify for installment plans. Installment plan program terms vary across issuers, but usually require a minimum transaction amount (typically $25, $50, or $100) and exclude certain types of transactions, such as cash or cash equivalent purchases and fees owed to the issuer.[211]

Installment plans bear some similarities to BNPL loans, as both products offer repayment through a series of fixed payments.[212] However, there are a few key differences between these

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[209] *See, e.g.*, Citi, *Cardmember Agreement for Citi Rewards+® Card*, https://www.citi.com/CRD/PDF/CMA/cardAgreement/CMA_PID408.pdf. *See also* JP Morgan Chase, *Cardmember Agreement for Visa Signature or Infinite/Mastercard World Elite Agreement*, https://www.chase.com/content/feed/public/creditcards/cma/Chase/COL00094.pdf.

[210] Some credit card issuers also offer a feature that allows cardholders to take a loan on their existing credit line and repay it in installments. These are distinct from the installment plans defined in this section, as they are usually cash loans that are deposited into a cardholder's bank account and have higher minimum amounts (typically $500). These loan products are not considered installment plans for the purposes of this report.

[211] *See, e.g.*, JP Morgan Chase, *MyChasePlan*, https://www.chase.com/personal/credit-cards/mychaseplan-hub.

[212] BNPL is a form of credit that allows a consumer to split a retail transaction into smaller, interest-free installments and repay over time. The typical BNPL structure divides a $50 to $1,000 purchase into four equal installments, with the first installment paid as a down payment due at checkout, and the next three due in two-week intervals over six weeks. CFPB, *Buy Now, Pay Later: Market trends and consumer impacts* (BNPL Report), (Sept. 2022), https://files.consumerfinance.gov/f/documents/cfpb_buy-now-pay-later-market-trends-consumer-impacts_report_2022-09.pdf.

products. First, most IPs include a fee with each installment, while BNPL loans are generally "interest free" and do not charge fees unless a consumer fails to pay on time. Further, while BNPL loans are often offered at the point-of-sale, IPs are typically offered after a consumer has made a purchase with their credit card. Thus, although IPs may contribute to the same overextension risks inherent in credit card usage, IPs may not present the same risk of "loan stacking" that may be associated with standalone pay-in-four type products. [213]

This section builds on previously reported observations about IPs using novel data. [214] We analyze the use, cost, and availability of credit card installment plans using data the CFPB solicited from several large credit card issuers with installment plan offerings in 2021 and 2022 as well as a review of publicly-available plan term documents.

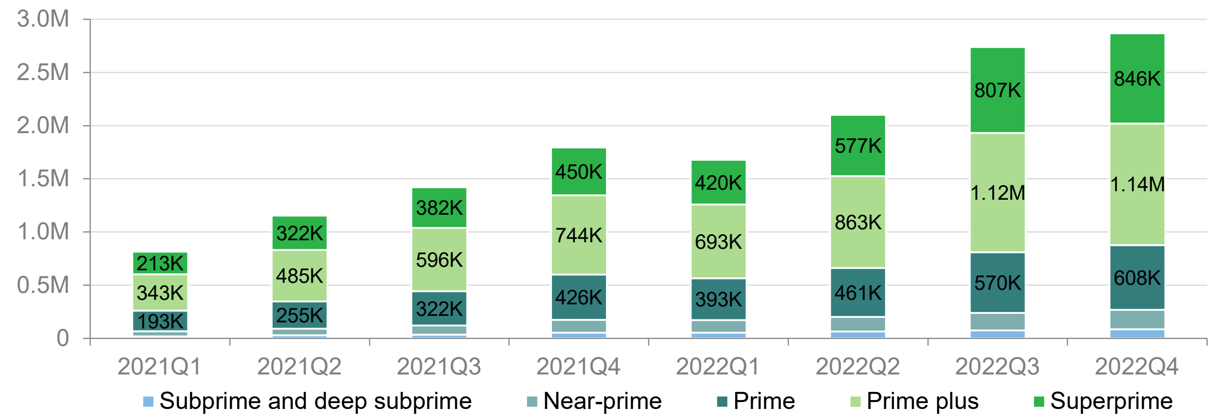
6.2.1 Prevalence

The prevalence of credit card installment plans has exhibited a steady rise over 2021 and 2022. As shown in Figure 6, in each quarter in 2022, the number of new installment plans grew by at least 60 percent year-over-year to reach 10 million in 2022. This upward trend in new plan volume occurred across all credit tiers, with cardholders in most tiers nearly doubling the number of new plans they opened between 2021 and 2022. The dollar amount covered by IPs also sharply increased, more than doubling in 2022 to reach $9 billion.

[213] BNPL loan stacking is the risk that a borrower takes out concurrent BNPL loans at different lenders and is unable to repay some or all of them. BNPL sustained usage is the risk that frequent BNPL usage may threaten borrowers' ability to meet non-BNPL financial obligations, such as rent, utilities, mortgages, auto loans, and student loans. See BNPL Report, *supra* note 213, for more details on these risks.

[214] *See* 2019 Report, *supra* note 3, at 177.

FIGURE 6: QUARTERLY NUMBER OF NEW INSTALLMENT PLANS (IP)

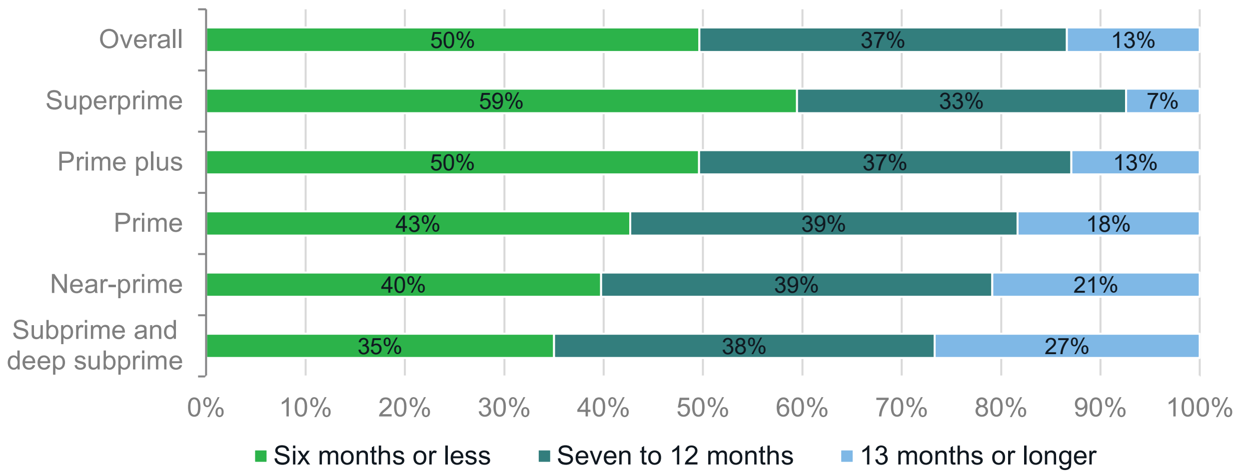


Credit card issuers are offering more options for consumers to pay for purchases in installments. Credit card installment plan offerings were initially only available for prior purchases. However, some issuers have introduced installment plans at the point-of-sale (POS) for specific merchants, potentially in response to the growing popularity of BNPL.[215] In 2022, about one in ten new plans were created at the time of purchase, rather than after the fact.

Installment plans can vary in duration from a few months to over a year. When cardholders initiate a new installment plan, issuers often present multiple duration options, which can vary based on the consumer's account history and creditworthiness. Figure 7 shows that, on average, shorter plan durations tend to be more common than longer durations. The distribution of plan durations varies among different credit tiers, with cardholders with higher credit scores displaying a greater propensity to enroll in shorter-duration plans. Among the plans issued to cardholders with superprime scores, only seven percent have a duration of 13 months or longer. In contrast, these extended duration plans account for 27 percent of the plans issued to cardholders with subprime and deep subprime scores. The inclination toward longer plans among cardholders with below-prime scores may stem from a preference for the lower monthly payments associated with longer plans. Another possibility is that issuers only provide cardholders with lower credit scores the option to enroll in plans with longer durations, potentially due to concerns over the consumer's ability to pay the new, higher monthly amount.

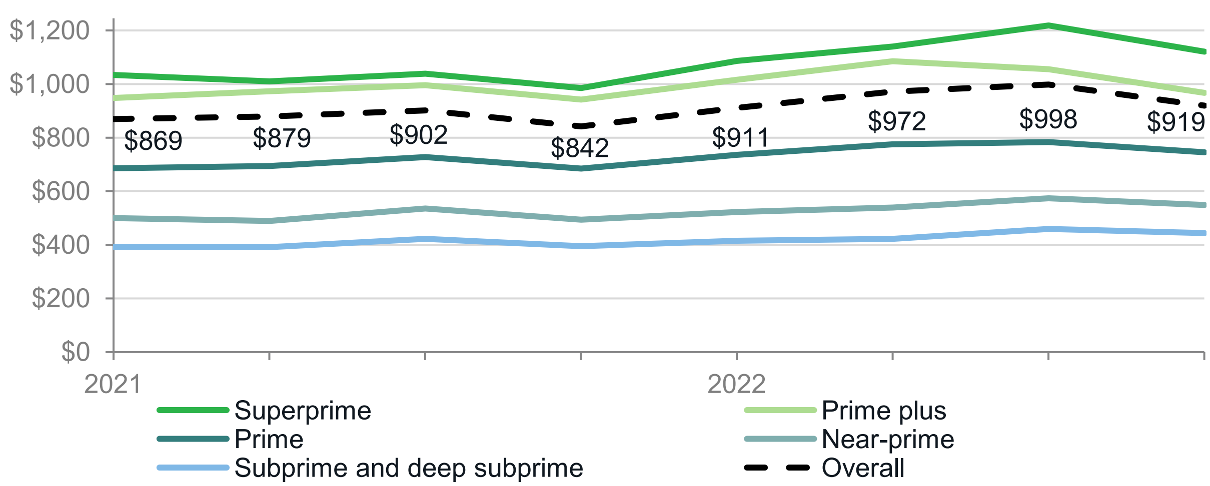
[215] Examples of IP offered at point-of-sale: American Express Plan It on Delta Air Lines, Citi Flex Pay on Amazon.

FIGURE 7: NEW INSTALLMENT PLANS BY DURATION, 2022 (IP)



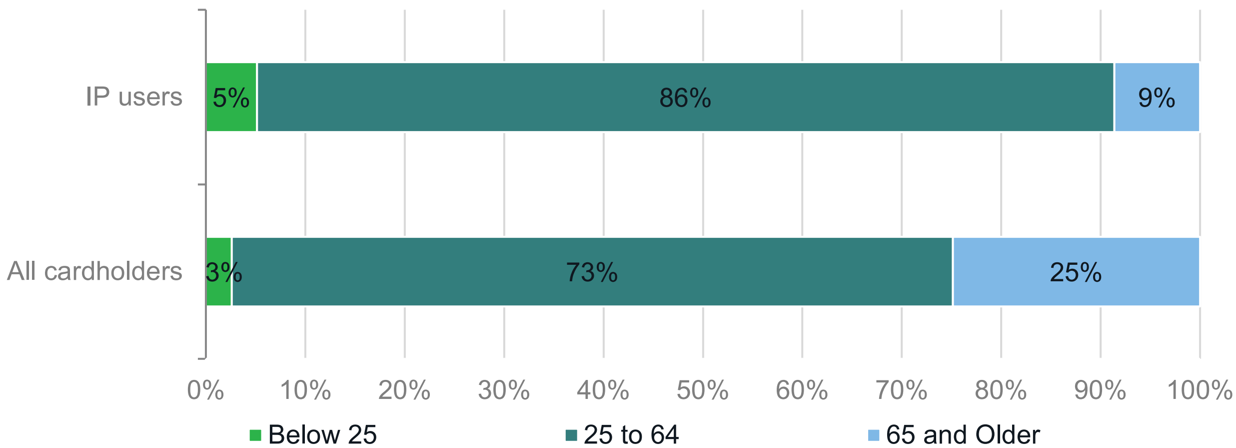
The average IP amount increased from 2021 to 2022, but less so in higher credit score tiers. The average dollar amount applied to installment plans was $871 in 2021 and $953 in 2022. As illustrated in Figure 8, the average plan amount increases with credit quality, as cardholders with above-prime scores report an average plan amount at least twice that of cardholders with subprime scores.

FIGURE 8: QUARTERLY AVERAGE AMOUNT APPLIED TO NEW INSTALLMENT PLANS (IP)



Users of installment plans tend to be younger than the overall population of cardholders at surveyed issuers and more similar in age to BNPL users. This was true in both 2021 and 2022. While 25 percent of cardholders belong to the 65 and older category, only nine percent of new installment plans are issued to individuals within that age group. In contrast, the two younger age groups are overrepresented among IP users, when compared to all cardholders. For reference, the age distribution observed for the BNPL borrower base skews younger, but more toward Millennials than Gen Z.[216]

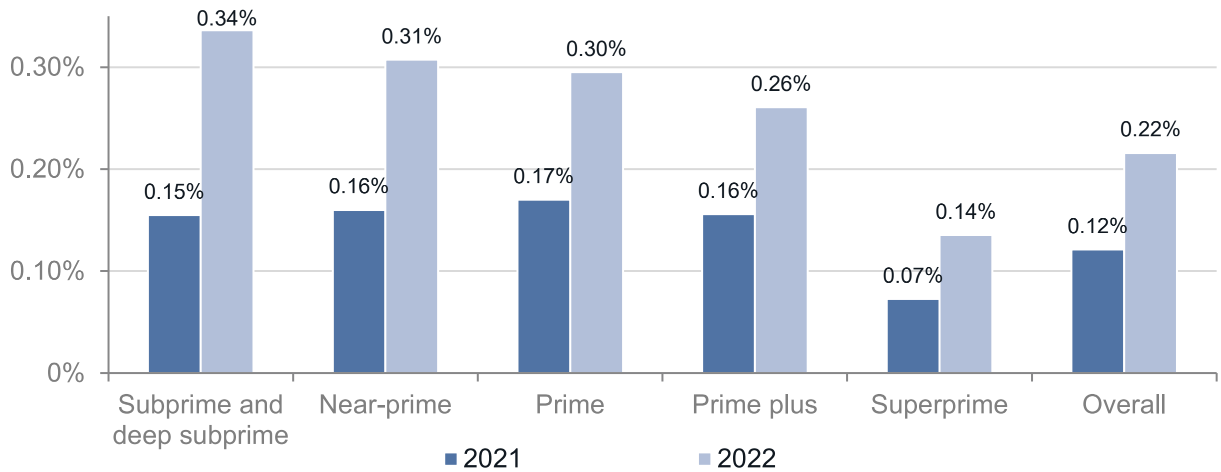
FIGURE 9: NEW INSTALLMENT PLANS BY CARDHOLDER AGE, ISSUERS OFFERING INSTALLMENT PLANS, 2022 (IP, MMI)



Only a small fraction of consumers at a limited number of issuers have used the installment payment feature. Around 0.2 percent of all cardholders made use of the installment plan feature at least once in 2022, nearly double the adoption rate seen in 2021. As depicted in Figure 10, credit quality was negatively associated with the propensity to acquire an installment plan in 2022. Although most new installment plans are issued to cardholders with above-prime scores, these accounts exhibited a lower likelihood of initiating an installment plan compared to cardholders with lower credit scores.

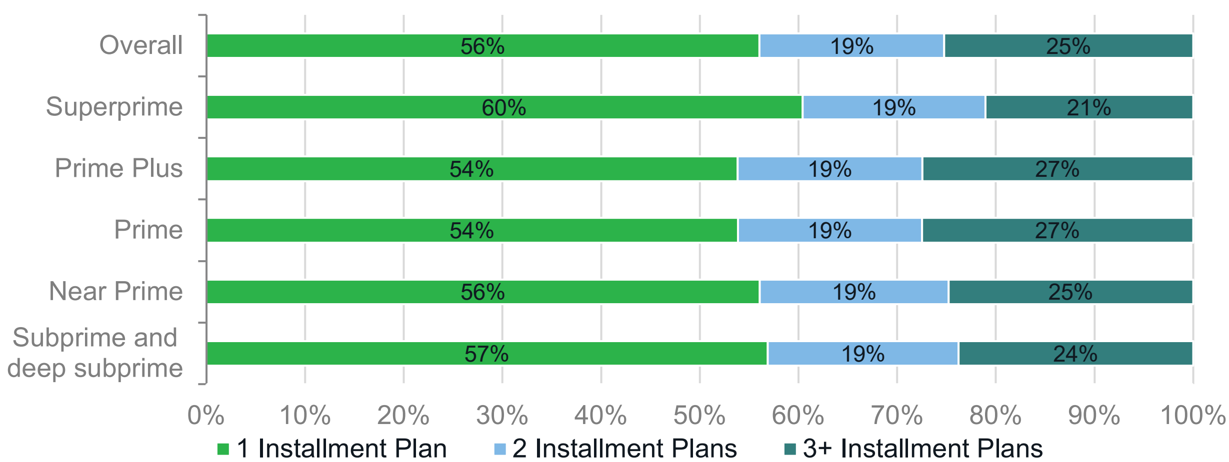
[216] *See* BNPL Report, *supra* note 212, at 70.

FIGURE 10: SHARE OF CARDHOLDERS AT ISSUERS OFFERING INSTALLMENT PLANS WITH ONE OR MORE NEW INSTALLMENT PLANS (IP)



The typical installment plan user in 2022 opened exactly one plan, with a smaller share of adopters enrolling in the feature multiple times. Fewer superprime cardholders acquired multiple plans in 2022 than cardholders in other score tiers. In all score tiers, more users opened three or more installment plans than opened two, suggesting while most users only have one plan, a minority may be heavy users of this feature. Some issuers may impose a limit on the number of concurrent plans users can initiate, but most cardholders remain well below this threshold.

FIGURE 11: NUMBER OF INSTALLMENT PLANS ASSOCIATED WITH CARDHOLDER ACCOUNT, 2022 (IP)[217]



[217] This measures installment plans created at any point in the calendar year—not necessarily concurrently.

Seventeen percent of cardholders with an installment plan had a utilization rate of 90 percent or more, similar to rates seen on credit cards more generally. This was highest for consumers with lower scores. Approximately half of accounts with IPs that are associated with subprime and deep subprime scores approached or exceeded maxing out their credit line, about the same rate as seen market-wide for those with or without plans. [218]

When a cardholder has an active installment plan, the required monthly payment associated with that plan is combined with the standard minimum payment, resulting in a higher total due. Consumers are required to make this payment by the specified due date to avoid incurring a late fee. Overall, 2.7 percent of installment plan payments were not paid on time during 2022. However, there is notable variation observed across credit tiers. The rate of missed payments ranges from as low as 0.3 percent for cardholders with superprime scores to as high as 18.8 percent for cardholders with subprime scores. This disparity suggests that some cardholders with lower credit scores may encounter greater challenges in meeting the higher minimum payment amount.

The extent to which issuers reevaluate consumers' ability to meet minimum payments when offering IPs is uncertain. Regulation Z requires issuers to consider ability to pay when setting the minimum payment. [219] Since installment plan payments are added to this minimum payment, the CFPB inquired about how ability to pay is considered in determining installment plan eligibility. Information solicited from a few card issuers suggests that since installment plans are offered through an existing line of credit, ability to pay the IP is rarely, if ever, considered when determining eligibility. At most, consumers' ability to pay may be considered when determining the duration of a given installment plan or how issuers market these features. These responses indicate that issuers may suggest or approve installment plans to consumers without considering their ability to meet the increased minimum payment amount.

6.2.2 Cost

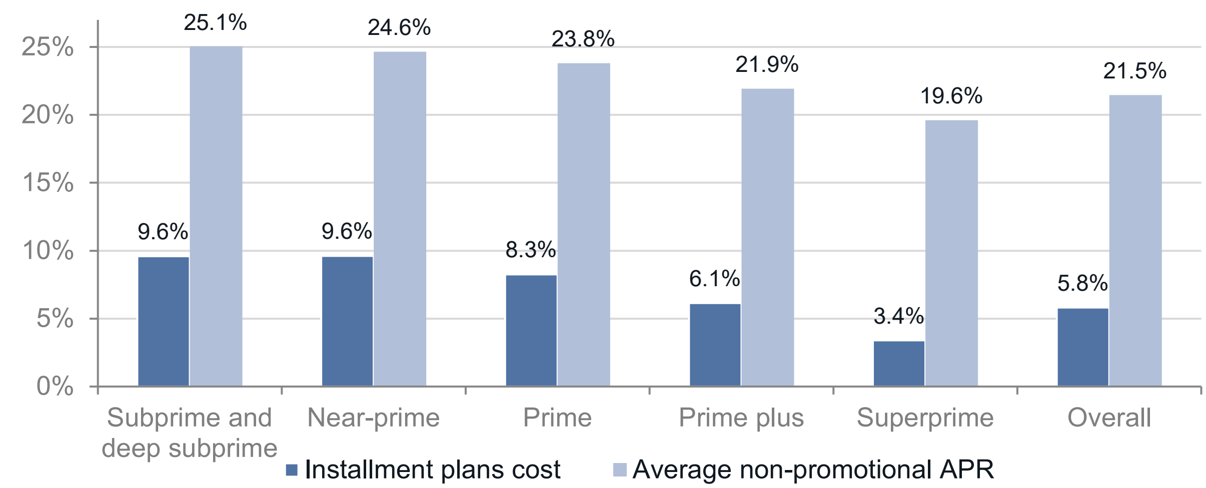
The average cost of installment plans is significantly lower than the cost a consumer would face by revolving the same amount at their non-promotional purchase APR. This is true overall and within each credit tier. To evaluate the cost of installment plans for consumers, we calculate the implied interest rate offered at the point of origination, representing the cost cardholders would incur if they were to complete their installment plan as initially contracted, without any early or

[218] See Section 6.2.

[219] See Reg Z, 12 C.F.R. 1026.5-1026.16; 1026.51-1026.61.

missed payments.[220] The average annualized offered cost of installment plans in 2022 was 5.8 percent, lower than the average APR on revolving purchases made with general purpose credit cards, which was 21.5 percent. Figure 12 shows that consumers with higher scores have a lower cost associated with their installment plans. It also shows that, for each credit tier, the cost of installment plans is significantly lower than the cost of revolving credit card debt. Part of this difference may be due to issuers offering promotional pricing on new installment plans alongside the launch of this novel feature. It is worth noting that this chart displays averages and there is substantial variation in offered cost across issuers and over time.

FIGURE 12: OFFERED COST OF INSTALLMENT PLANS AND AVERAGE APR BY CREDIT TIER, 2022 (IP)



This method of assessing cost does have certain limitations since the actual net cost or benefit is contingent upon the alternative course of action a cardholder would have pursued if they had not opted for the installment plan. For instance, one category of installment users may consist of cardholders who already carry a balance without a grace period. In this case, their alternative action would have been to add the purchase amount to the existing revolving balance. The installment plan could prove beneficial for them, as the annualized cost of financing charges is lower than the APR, leading to some savings. The cardholder in this case may also benefit from paying off more of their balance through regular minimum payments. However, it should be noted that an installment plan would also increase the minimum payment due, potentially raising the likelihood of a late payment. Therefore, the net cost or benefit to these consumers is unclear.

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220 This rate is calculated using the average plan amount, average financing charges, and average plan duration. It is presented as an annualized figure.

Installment plans are likely cheaper for people who only borrow on their credit card occasionally. For example, consider a cardholder who typically pays off their credit card balance in full but is facing a large expense where they may prefer a longer repayment period. In this scenario, an installment plan would help the consumer retain the grace period and incur a lower cost of credit than if they were to revolve the purchase amount. In this case, assuming this consumer can meet the minimum payment, an installment plan would likely provide a net benefit. Issuers offering these plans do not appear to currently charge prepayment penalties. If a consumer desires to pay off an IP early, issuers typically allow prepayment if the cardholder makes a payment for the current balance on the credit card. [221]

Lastly, there are likely consumers who would have simply paid off the balance of their purchase if not for the installment plan, an alternative that would have no financing charges. On paper, this would make the installment plan appear to be associated with a net cost to the consumer. However, providing the flexibility to pay over time may provide additional liquidity or other benefits to the consumer.

6.3 Balance transfers

Balance transfer offers enable consumers to potentially reduce the cost of credit card debt. [222] Some credit cards offer promotional rates for balance transfers to incentivize consumers to apply for or increase their use of a credit card account. Generally, balance transfers allow users to shift existing balances from other credit products and other credit cards onto the new one; consumers are typically offered a lower interest rate on the transferred balance (often zero percent) but are also typically required to pay an upfront fee assessed as a share of the transferred balance. In addition to transferring debt from another credit card, most balance

[221] *See e.g.*, American Express, *Pay It Plan It® Frequently Asked Questions,* https://www.americanexpress.com/us/credit-cards/features-benefits/plan-it/faq/#:~:text=If%20you%20pay%20off%20a,in%20your%20current%20billing%20period (last accessed Aug. 1, 2023); Chase, *My Chase Plan FAQs*, https://www.chase.com/personal/credit-cards/mychaseplan-hub/faqs#:~:text=You%20can%20pay%20your%20plan,can%20pay%20your%20current%20balance (last accessed Aug. 1, 2023).

[222] One RFI commenter wrote that balance transfers could "better support the financial security and protection of low-income consumers" and provides a list of regulatory changes they suggest would make balance transfers less costly and more user-friendly, including a ban on "retroactive interest," interest calculators to enable consumers to see whether a balance transfer will result in significant savings, and automated consumer alerts when a promotional period is ending. *See* Neighborhood Trust Financial Partners Comment Letter, at 1-2.

transfer offers allow consumers to pay off other loans and bills.[223] By the conclusion of the promotional period, if the consumer does not execute another balance transfer or has not repaid the balance, the remainder of the balance becomes subject to the higher non-promotional interest rate. In a high interest rate environment, balance transfer offers can be particularly valuable to cardholders committed to paying down debt during the promotional period.

6.3.1 Prevalence

Balance transfers became significantly less common during the pandemic but appear to be returning to 2019 levels. Following four years of growth, balance transfer volume fell 36 percent year-over-year to $35 billion in 2020, and quarterly balance transfer incidence fell from 0.9 percent in 2019 to 0.4 percent at year's end in 2020. Since 2020, balance transfer incidence has risen to 0.7 percent per quarter, and volume rebounded to $53 billion in 2022 but remains somewhat below 2019 levels after adjusting for inflation (see Figure 13). Reductions in balance transfer prevalence and volume during the pandemic may have been driven by a reduction in offers or approved balance transfer amounts as issuers looked to limit exposure to potential future losses amidst economic uncertainty.[224] A review of recent marketing data shows a decrease in average promotion duration and fewer direct mail balance transfer offers. These results suggest issuers may be pulling back on balance transfer offers, possibly due to rising interest rates and the potential for consumer financial stress as borrowing costs increase.[225] Prevalence growth may also be somewhat limited by a lack of awareness, particularly among younger consumers; one survey found that 37 percent of cardholders with a balance are unaware of the balance transfer feature, including 50 percent of Millennials and 61 percent of Gen Zers.[226] Beyond a lack of awareness, some consumers may fail to take action because they miscalculate the financial benefits or incorrectly assume they would be denied access to balance transfer offers.

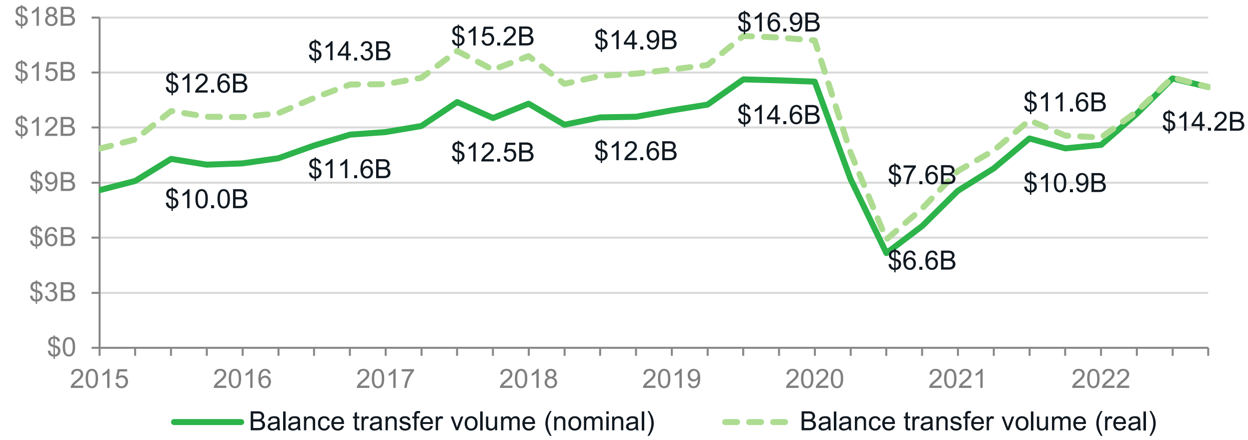
[223] Many transactions effectuated using a "convenience check" may also be treated as balance transfers by issuers. However, not all such transactions are so treated; depending on how it is used, some may be treated similarly to cash advances. The CFPB therefore excludes convenience check transactions from this analysis (and from its analysis of cash advances in Section 6.4), acknowledging that this likely excludes at least some volume that may be identical or nearly identical from the consumer perspective.

[224] *See* AnnaMaria Andriotis & Veronica Dagher, *Credit-Card Balance Transfers Are Harder to Come By*, Wall St. J. (June 6, 2020), https://www.wsj.com/articles/credit-card-balance-transfers-are-harder-to-come-by-11591435801.

[225] Data provided by Competiscan.

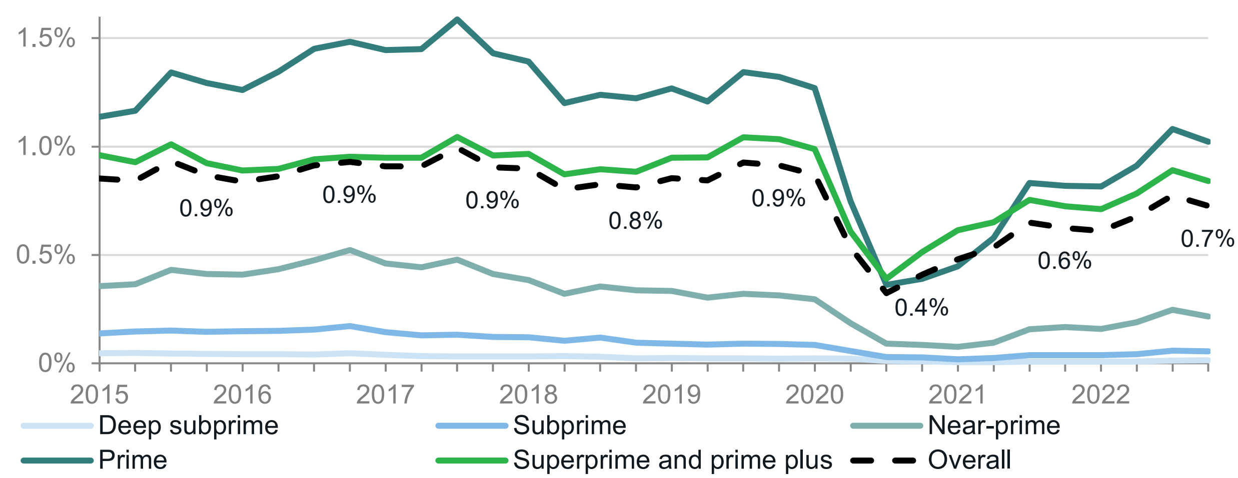
[226] Erica Sandberg, *Survey: More Americans are carrying debt, and many of them don't know their APRs*, Bankrate (Jan. 10, 2023), https://www.bankrate.com/finance/credit-cards/more-americans-carrying-debt-and-many-dont-know-apr/; Cheyenne DeVon, *This credit card debt payoff strategy may sound 'too good to be true,' but it could save you thousands*, CNBC (Mar. 21, 2023), https://www.cnbc.com/2023/03/21/what-is-a-credit-card-balance-transfer.html.

FIGURE 13: QUARTERLY BALANCE TRANSFER VOLUME, NOMINAL AND INFLATION-ADJUSTED (Y-14+)



Balance transfers are almost exclusively used by cardholders with prime, prime plus, and superprime credit scores, as shown in Figure 14. In 2021 and 2022, consumers with prime or better credit scores accounted for more than 98 percent of balance transfer volume, consistent with our prior report. Primarily, this is because balance transfer offers are typically available only to applicants with higher credit scores. [227]

FIGURE 14: QUARTERLY BALANCE TRANSFER INCIDENCE, GENERAL PURPOSE (Y-14+)



Transfers have become larger, on average, since our last report. Balance transfers for cardholders with superprime and prime plus scores averaged roughly $6,000 in the fourth quarter of 2022, up from $5,600. Balance transfers by cardholders with prime scores averaged

[227] *See* Brianna McGurran, *Bad Credit? Here's What You Need to Know About Balance Transfers*, Experian (Nov. 30, 2019), https://www.experian.com/blogs/ask-experian/can-i-get-a-balance-transfer-card-with-bad-credit/.

about $4,700 in the fourth quarter of 2022, up from just over $4,500 in the same quarter of 2021. Increases in the average size of balance transfers could be driven by larger consumer requests after increased spending given inflation or larger issuer-approved amounts.

6.3.2 Cost

While the net cost associated with balance transfers depends both on the terms provided by the issuer and how consumers take advantage of the offer, upfront fees as a share of the transferred balance have decreased and promotional interest rates remain low. Balance transfers generally incur an initial fee, followed by a low interest rate on the transferred balance for a set period or until the balance is repaid. [228] Measured as a percentage of the amount that cardholders transfer, the average fee decreased from 3.0 percent in 2020 to 2.8 percent in 2022. Consumers use balance transfers to switch to a new card, often doing so to take advantage of low promotional interest rates: more than 95 percent of credit card solicitations sent to new prospects included an introductory zero percent balance transfer rate in 2021 and 2022. [229] For example, a cardholder who transfers a $5,000 balance from a card where they were revolving the balance at 25 percent APR might pay a fee of 2.8 percent of the balance ($140) upfront, but due to the 0zeropercent balance transfer APR they would save nearly $1,250 per year in interest if they otherwise would have paid only the minimum payment due each month on their prior card during the new card's promotional period. Depending on the duration of the promotion and the interest rate differential, as well as the consumer's repayment behavior, savings from balance transfers can be significantly higher than the upfront cost of the initial balance transfer fee.

Besides the initial fee and interest, consumers may also incur costs associated with the loss of a grace period on new purchases when making a balance transfer, which can result in an increase in interest charges on other balances. Cardholders who make purchases on a card that carries a transferred balance typically do not benefit from a grace period on new purchases, even if they repay the full amount of new purchases each month. For example, a consumer who routinely spends around $500 on a credit card each month and pays that balance in full would normally benefit from a grace period. However if they spent the same amount on a card with a transferred balance, the consumer would typically instead incur interest charges on their monthly $500 spending at the card's retail APR rate from the date of each purchase, even if the transferred

[228] Some issuers offer introductory no fee balance transfers for new cards, but this does not appear to be a common practice in the industry.

[229] Data provided by Competiscan.

balance is subject to a zero percent interest rate. [230] It would be prudent for consumers in this situation to use a separate card for new purchases while they pay down the transferred balance, rather than adding new purchases to the card with the transferred balance. While transacting accounts represent only a minority of all accounts that take advantage of balance transfers, as noted in a prior report, most of these formerly transacting cardholders went on to make purchases before the balance transfer was paid, incurring interest charges on those new purchases and increasing the effective cost of the transfer. [231]

6.4 Cash advances

The cash advance feature of many general purpose credit cards allows consumers to obtain cash or cash equivalents using a portion of their card's credit line (20 percent of the line is common), sometimes called the "cash line." [232] Unlike balance transfers, cash advances are available to any consumer with a card that has the feature, assuming their cash credit line has not been reached. Cash advances are usually subject to a higher interest rate than other purchases and typically begin accruing interest immediately, even for transacting accounts otherwise under a grace period.

Consumers can access cash advances through a variety of means; ATM withdrawals may be the most well-known form of cash advance, but they are not the only one. Issuers may treat certain credit card purchases as cash advances; this can include such uses as the purchase of chips at a casino, gold at a bank, foreign currency, traveler's checks, gift cards, prepaid cards, convenience checks, virtual currencies, and peer-to-peer transfers. [233] In some cases, when a consumer links a

[230] Some issuers permit consumers to enjoy a grace period on new purchases while revolving a transferred balance during the promotional period, but the prevailing practice appears to be that revolving balance transfers does eliminate the grace period on regular purchases. Issuers are required to provide certain disclosures to consumers which include information regarding the potential loss of a grace period when balances are not paid in full. 12 C.F.R. § 1026.6(b)(2)(v). Issuer disclosures on balance transfers show that some issuers have revised their applicable grace period policies. These disclosures show that some issuers now allow consumers to retain their grace period while revolving a transferred balance so long as they pay the balance generated by new purchases in full each month. Although issuers lose some interest revenue from this type of change, consumers stand to benefit from balance transfer costs being clearer. In addition, issuers may realize some benefits. The decreased cost of new purchases may cause increased use of the card for such purchases. In addition, the issuer may avoid any customer service costs associated with the prevailing grace period policy on balance transfers. *See* 2017 Report, *supra note 3*, at 193.

[231] *See* 2015 Report, *supra note 3*, at 126; *see also* 2017 Report, *supra note 3*, at 191 to 193.

[232] To the CFPB's knowledge, some private label cards provide a cash advance feature at the point of sale, but the practice is not common and does not fall within the scope of this section.

[233] *See, e.g.,* Capital One, *What is a cash advance on a credit card?*, CapitalOne.com (last accessed May 18, 2023), https://www.capitalone.com/learn-grow/money-management/cash-advance/. *See also* Taylor Medine, *What Are*

credit card to a deposit account in order to cover overdrafts on the latter, the credit card issuer will treat the overdraft as a cash advance. [234]

6.4.1 Prevalence

Cash advance volumes fell sharply during the pandemic and, by 2022, recovered to nominal pre-pandemic levels but remained lower when accounting for inflation. Prior to the pandemic, cash advance volume averaged roughly $3 billion per quarter with some seasonal fluctuations, typically showing slightly higher volumes in the third quarter of each year. As shown in Figure 15 below, the second quarter of 2020 saw cash advance volume decline to less than $2 billion before rising gradually to about $3.6 billion by the fourth quarter of 2022. One explanation for the return of cash advance volume may be the expiration of measures aimed at mitigating the economic impact of COVID-19, such as economic stimulus payments, tax credits, and enhanced unemployment benefits, which met some of the need consumers may otherwise have had for cash during the pandemic. Consumer savings increased during the pandemic but now appears to be back to historical levels, which may be contributing to increased demand for cash advances. [235]

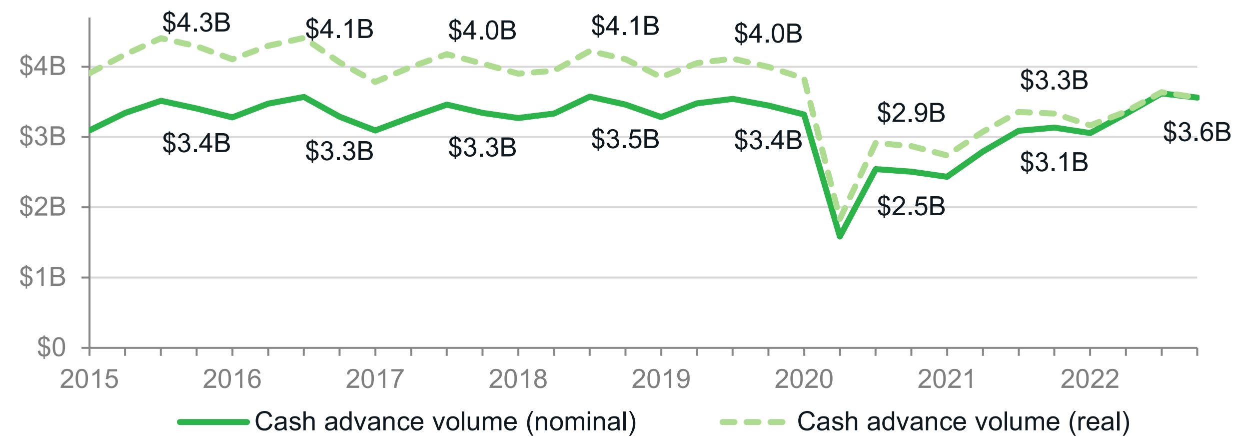
'Cash-Like' Credit Card Transactions?, The Balance (Apr. 20, 2022), https://www.thebalancemoney.com/what-are-cash-like-credit-card-transactions-5185391. Many transactions effectuated using a "convenience check" may also be treated as cash advances by issuers. However, not all such transactions are so treated; depending on how it is used, some may be treated similarly to balance transfers. The CFPB therefore excludes convenience check transactions from this analysis (and from its analysis of balance transfers in Section 6.3), acknowledging that this likely excludes at least some volume that may be identical or nearly identical from the consumer perspective.

[234] *See, e.g.*, Fifth Third Bank, *Fifth Third Bank Card Agreement for Mastercard and Visa Accounts*, https://files.consumerfinance.gov/a/assets/credit-card-agreements/pdf/QCCA/FIFTH_THIRD_BANK_NATIONAL_ASSOCIATION/18157-consumer-card-agreement.pdf.

. *See also* Wells Fargo, *Wells Fargo Active Cash Credit Card Account Agreement*, https://www.wellsfargo.com/credit-cards/agreements/active-cash-agreement/.

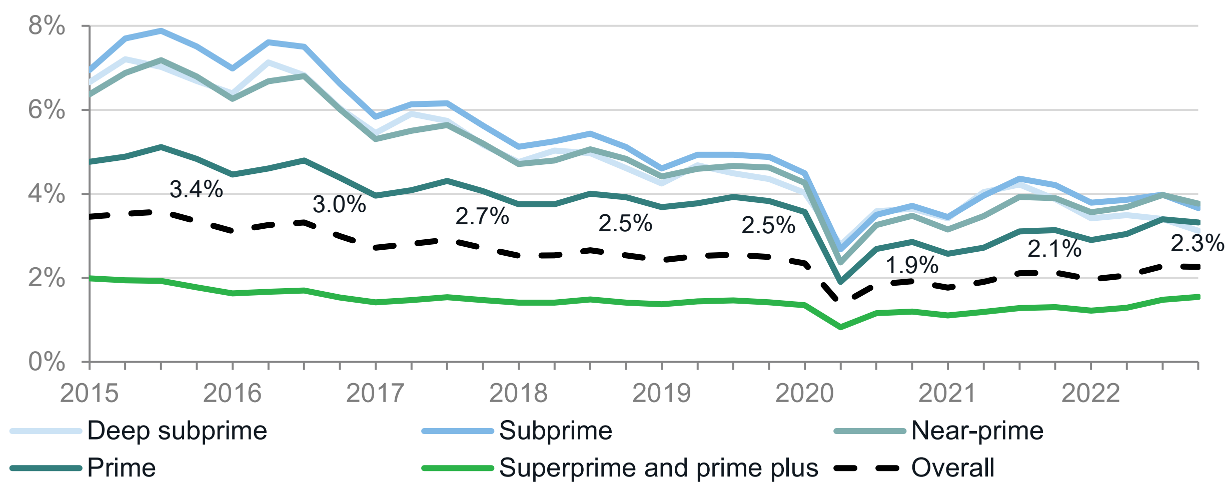
[235] Personal savings rates reached record highs during the pandemic, but have since fallen to below 5 percent, a level not seen since 2009. *See* Fed. Rsrv. Bank of St. Louis, *Personal Saving Rate*, https://fred.stlouisfed.org/series/PSAVERT.

FIGURE 15: QUARTERLY CASH ADVANCE VOLUME, GENERAL PURPOSE (Y-14+)



Cash advance usage has rebounded somewhat for cardholders in all credit score tiers since the decline in the second quarter of 2020, somewhat reversing a previous trend away from cash advances. Cash advance incidence had been declining between 2015 and 2020, particularly in the below-prime market segment, as shown in Figure 16. Since cash advance volumes were steady during this time, the gradual decline in incidence of the cash advance feature is likely due to an increase in the number of credit cards in circulation. Since our last report, cash advance usage has increased, but remains below pre-pandemic levels. Cash advance incidence is relatively uniform across credit score tiers, except for consumers with superprime and prime plus scores who use cash advances markedly less than all other cardholders.

FIGURE 16: QUARTERLY CASH ADVANCE INCIDENCE, GENERAL PURPOSE (Y-14+)



The average cash advance line is greater for cardholders with higher scores. Superprime cardholders average $3,000 per card, while below-prime score tiers average $1,000 or less. Partly these differences are a function of higher average overall credit lines for higher score cardholders, resulting in higher cash advance lines, but some of the differences are also due to utilization. Cardholders may use the cash advance feature in an amount that is the smaller of either the remaining available line or the maximum cash advance line on the card. Given that utilization rate for cards held by consumers in below-prime tiers tends to be high, cash advances are likely more limited by the remaining card balance than the cash advance line amount.

6.4.2 Cost

Cash advance costs depend on the amount advanced, upfront fees, interest rates, and the timing of repayment.[236] Fee structures can be relatively complex, with some card agreements stipulating different cash advance fee percentages and minimum fee amounts for different cash advance transactions, such as lower fees for ATM transactions and higher fees for cash equivalents like casino chips.[237] Minimum fixed fee amounts for cash advances charged under a two-way pricing structure, such as "$10 or 5%," can translate to high cash advance fee ratios for cardholders who take a small dollar amount cash advance. This is more often the case for cardholders with little remaining available credit on their cards. For this reason, cash advance fee ratios tend to be higher for cardholders in lower score tiers. Cash advance APRs are typically higher than purchase APRs, and these transactions are not usually subject to any kind of grace period, meaning they begin accruing interest at that higher APR at the point that the cash advance is taken, even if the cardholder pays their balance in full every month.[238]

Cash advance fees overall moved in line with usage, falling in 2020 before recovering to approach pre-pandemic levels in 2022.[239] Fee volumes had been stable prior to the pandemic, totaling just under $750 million per year for issuers in the Y-14+ data. In 2020, due to declines in usage, cash advance fee volume fell to roughly $550 million, a decline of nearly 27 percent. As usage returned, cash advance fees totaled $635 million in 2021 and $717 million in 2022. As a

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236 One RFI commenter expressed frustration that cash advance APRs may be higher, but their payments were not being allocated to the higher rate balances first. *See* John Mitchell Comment Letter, at 1. Other RFI commenters raised concerns regarding the high cost of cash advance fees and lack of clear disclosure of those fees. *See* James Jacobson Comment Letter; Lyn Strangstad Comment Letter; Du Ng Comment Letter; v L Comment Letter (CFPB-2023-0009-2734).

237 *See, e.g.*, U.S. Bank, *Cardmember Agreement for U.S. Bank National Association Visa® and Mastercard® Classic, Gold and Platinum Accounts*, https://applications.usbank.com/oad/teamsite/decisioning/usbank/docs/global_default/FR006213482_03_USB.pdf.

238 Indirect costs to cardholders such as interest on balances from purchases that would otherwise be treated as interest free due to a grace period are not included in calculations of cash advance fee costs but remain an important consideration.

239 *See* Section 4.3.3 for more data on cash advance fees over time.

share of volume, cash advance fees have averaged between 5.1 and 5.6 percent in every quarter since mid-2015.

6.4.3 Developments

With the explosive growth in sports betting over the past five years, more consumers may find themselves surprised by an unexpected cash advance fee and the associated interest when linking their credit card to an online operator. In 2018, the Supreme Court struck down a federal law that banned sports betting in most of the country and gave states the right to legalize it. [240] At the time of report writing, 33 states and the District of Columbia offered legal sports betting. [241] One in five consumers have personally bet money on sports, and while most of these still report their betting was with family and friends, online methods like apps now represent a significant channel. [242] Some issuers decline credit card transactions with online wagering companies; [243] others treat them as cash advances. [244] Cardholders, especially those betting for the first time, may not grasp the difference in using their credit card in a sportsbook app compared to a ride share or food delivery service; consumer complaints to the CFPB after being charged a cash advance fee for online gambling have increased in recent years. In some cases, consumers allege they were charged a separate cash advance fee for each wager, with no alert or warning that such use would result in additional charges. In other cases, consumers disputed the transactions because they were unaware that using a credit card for online gambling could be treated as a cash advance. Due to the risks associated with gambling using high-cost credit, some states and other countries have banned the use of credit cards for online gambling. [245]

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[240] Adam Liptak & Kevin Draper, *Supreme Court Ruling Favors Sports Betting,* New York Times (May 14, 2018), https://www.nytimes.com/2018/05/14/us/politics/supreme-court-sports-betting-new-jersey.html.

[241] Eric Lipton & Kevin Draper, *First Came the Sports Betting Boom. Now Comes the Backlash.,* New York Times (May 13, 2023), https://www.nytimes.com/2023/05/13/sports/online-sports-gambling-regulations.html.

[242] John Gramlich, *As more states legalize the practice, 19% of U.S. adults say they have bet money on sports in the past* year, Pew Research Center (Sep. 14, 2022), https://www.pewresearch.org/short-reads/2022/09/14/as-more-states-legalize-the-practice-19-of-u-s-adults-say-they-have-bet-money-on-sports-in-the-past-year/.

[243] *Why was my deposit declined?,* Fanduel, https://support.fanduel.com/s/article/Why-Was-My-Deposit-Declined-sportsbook (last accessed June 13, 2023).

[244] *See, e.g.*, JPMorgan Chase, Visa Cardmember Agreement, https://files.consumerfinance.gov/a/assets/credit-card-agreements/pdf/QCCA/JPMORGAN_CHASE_BANK_NATIONAL_ASSOCIATION/Visa_Agreement_(PDF)_-_COL00095.pdf.

[245] Chauncey Crail, *Why You Shouldn't Use A Credit Card For Sports Betting,* Nasdaq (Jan. 20, 2023), https://www.nasdaq.com/articles/why-you-shouldnt-use-a-credit-card-for-sports-betting.

6.5 Over-limit transactions

Over-limit transactions refer to any extension of credit by a card issuer to complete a transaction that causes a consumer's credit card account balance to exceed the credit limit.[246] A card issuer may permit over-limit transactions to occur, and the prevalence of over-limit transactions suggests they do, but over-limit fees are now virtually non-existent due to certain restrictions put in place by the CARD Act. While over-limit fees are regulated, the timing of repayment of over-limit balances is not. Some issuers may require cardholders to pay over-limit amounts as part of their required minimum payment when billed in their statement. Others may not require immediate payment of the over-limit amount and allow consumers to continue using the card while exceeding the limit as a courtesy, potentially raising concerns over cardholders' ability to repay the amount borrowed under provisions in Regulation Z.[247]

6.5.1 Prevalence

The prevalence of over-limit transactions increased in 2022 to reach 15 percent of accounts in the Y-14 dataset in a quarter, the highest mark since at least 2015, following a decline in incidence in 2020. Prior to the passage of the CARD Act, in the fourth quarter of 2008, 16.4 percent of accounts had one or more over-limit instances.[248] Over-limit transactions tend to be more common among lower-score cardholders since these cardholders typically have lower credit limits and higher credit utilization than higher-score cardholders, making it more likely that even a modest purchase might exceed their credit limit. Recent changes in incidence are also driven by accounts with subprime scores. Over-limit transactions tend to be more common among lower-score cardholders since these cardholders typically have lower credit limits and higher credit utilization than higher-score cardholders, making it more likely that even a modest purchase might exceed their credit limit. Superprime and prime plus score cardholders may also make purchases that exceed their credit limits, but this happens infrequently due to their typically greater amount of available credit.

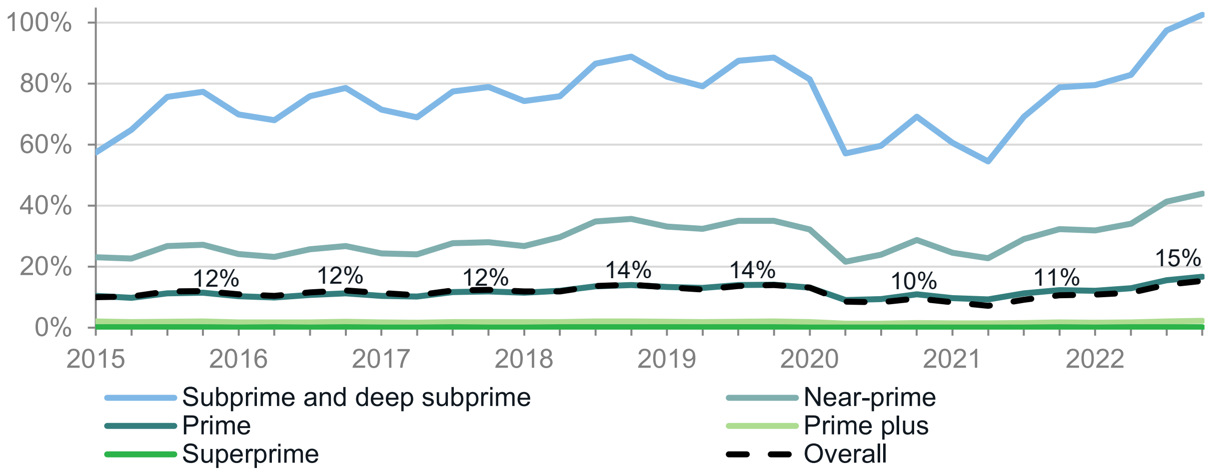
Josh Butler, *Australian gamblers to be banned from using credit cards for online betting,* The Guardian (Apr. 27, 2023), https://www.theguardian.com/australia-news/2023/apr/27/australian-gamblers-to-be-banned-from-using-credit-cards-for-online-betting.

[246] 12 C.F.R. § 1026.56(a).

[247] 12 CFR 1026.51(a)(1)(i).

[248] 2013 Card Report, at 20-21.

FIGURE 17: QUARTERLY OVER-LIMIT INCIDENCE, GENERAL PURPOSE (Y-14)



6.5.2 Cost

Despite the increase in the prevalence of over-limit transactions, over-limit fees remain almost nonexistent. The CARD Act implemented restrictions on the over-limit fees assessed when a consumer exceeds their assigned credit line. Per the Act, issuers may only charge such fees if the consumer expressly opts in to permit over-limit transactions.[249] The 2015 Report showed that over-limit fees, considered collectively, have steadily declined in prevalence since 2008.[250] Subsequent reports found that over-limit fees, common prior to the implementation of the CARD Act, have remained almost nonexistent in recent years, a trend that has continued through 2022.[251]

6.6 Dispute resolution

Federal laws protect consumers in cases of billing errors on or unauthorized use of their credit cards.[252] Dispute resolution is the process through which a cardholder requests that their credit

[249] 15 U.S.C. § 1637(k) (2012); *see also* 12 C.F.R. § 1026.56 (2013).

[250] *See* 2015 Report, *supra note 3*, at 71 to 72.

[251] Section 3.3.5 of the 2017 Report notes that many issuers appear to have simply ceased assessing over-limit fees altogether, rather than maintain an opt-in regime. *See* 2017 Report, *supra note 3*, at 96 to 97.

[252] The Fair Credit Billing Act, enacted and incorporated into TILA in 1974, includes substantive protections for credit card users who have billing errors. See 12 C.F.R. § 1026.13(a)-(b). If a consumer files a billing error notice, a creditor is required to investigate the alleged error, send certain notifications to the consumer, and refund any amount found

card company remove an incorrect or fraudulent charge from their bill. During the pandemic, dispute volume rose given the surge of travel-related cancellations, supply-chain delays, or failures to deliver, and a reported increase in fraud attacks. [253] Given the rise in dispute volume and increase in chargebacks, or credits awarded through the dispute resolution process, the financial impact of disputes on many merchants grew. Visa blamed a rise in "friendly fraud," or disputes on purchases that were authorized and correctly billed. [254] Chargebacks for products or services purchased and received by the cardholder may increase prices for other consumers as merchants work to recover their costs.

After adjusting for the growth in purchases, increased dispute rates drove much of the rise in chargebacks. In 2022, cardholders at major issuers disputed almost $10 billion in purchases and received $6 billion in chargebacks. Dispute volume rose 50 percent from 2019 levels of $6.5 billion, while chargebacks increased over 80 percent from $3.2 billion over the same period. After a spike in the second quarter of 2020, disputes and associated chargebacks fell in the remainder of that year. In 2019, consumers disputed about $3.02 out of every $1,000 spent and received $1.49 in return; in 2022, they contested $3.40 and got $2.03. During the pandemic, cardholders became more accustomed to disputing transactions, partly due to the increase in travel-related cancellations. [255] At the same time, updates to issuers' apps and online portals over the past few years have made it easier for cardholders to question a charge. Quarterly volume

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in error as well as any related charges that accrued. See 12 C.F.R. § 1026.13(c), (e), and (f). TILA's implementing Regulation Z defines unauthorized use as "the use of a credit card by a person, other than the cardholder, who does not have actual, implied, or apparent authority for such use, and from which the cardholder receives no benefit." 12 C.F.R. § 1026.12(b)(1)(i).

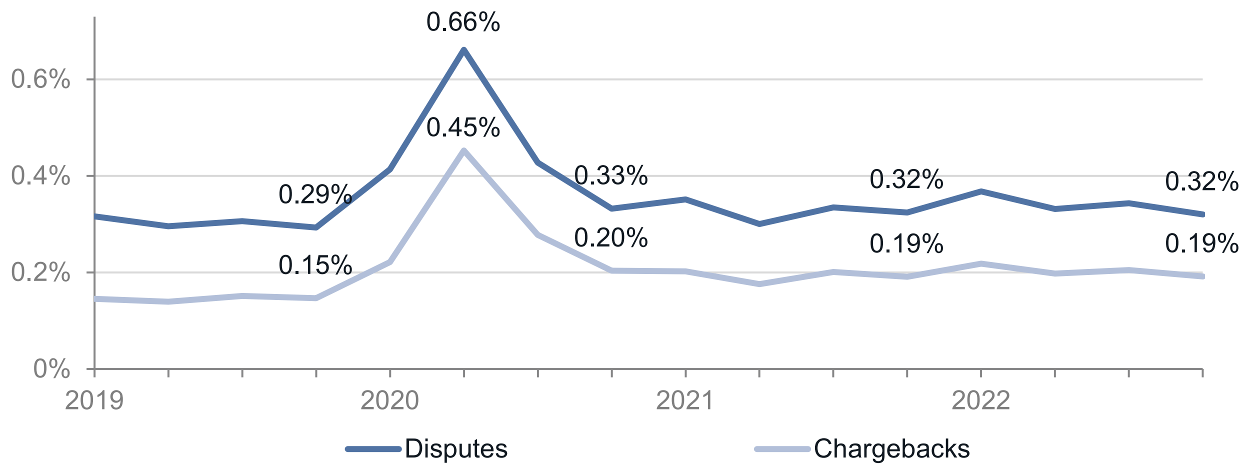
[253] Christopher Elliott, *How to file a credit card dispute for your canceled vacation- and win,* Washington Post (Apr. 8, 2020), https://www.washingtonpost.com/lifestyle/travel/how-to-file-a-credit-card-dispute-for-your-canceled-vacation--and-win/2020/04/08/316e7b7e-7807-11ea-b6ff-597f170df8f8_story.html; Emma Fletcher, *Pandemic purchases lead to record reports of unreceived goods,* Federal Trade Commission (Jul. 1, 2020), https://www.ftc.gov/news-events/data-visualizations/data-spotlight/2020/07/pandemic-purchases-lead-record-reports-unreceived-goods; AnnaMaria Andriotis & Orla McCaffrey, *Borrower, Beware: Credit-Card Fraud Attempts Rise During the Coronavirus Crisis,* Wall Street Journal (May 27, 2020), https://www.wsj.com/articles/borrower-beware-credit-card-fraud-attempts-rise-during-the-coronavirus-crisis-11590571800?mg=prod/com-wsj.

[254] Nathan Bomey, *Credit card charge disputes on the rise as consumers cheat businesses,* Axios (Dec. 9, 2022), https://www.axios.com/2022/12/09/credit-card-fraud-chargebacks-visa. Accordingly, Visa implemented new guidelines in April 2023 called the "Compelling Evidence Rule 3.0 (CE3.0)" that work to combat these types of charges by providing merchants a framework for disputing fraud claims for card-not-present transactions where the consumer was logged in or otherwise showed proof of identity. *Compelling Evidence 3.0 Merchant Readiness,* VISA (Mar. 2023), https://usa.visa.com/content/dam/VCOM/regional/na/us/support-legal/documents/compelling-evidence-3.0-merchant-readiness-mar2023.pdf.

[255] Christopher Elliot, *How to file a credit card dispute for your canceled vacation- and win,* Washington Post (Apr. 8, 2020), https://www.washingtonpost.com/lifestyle/travel/how-to-file-a-credit-card-dispute-for-your-canceled-vacation--and-win/2020/04/08/316e7b7e-7807-11ea-b6ff-597f170df8f8_story.html.

then grew from mid-2021 through 2022 as consumers spent more.[256] Chargebacks appear to be increasing faster than disputes as a greater share of disputes are being decided in consumers' favor at higher average amounts.

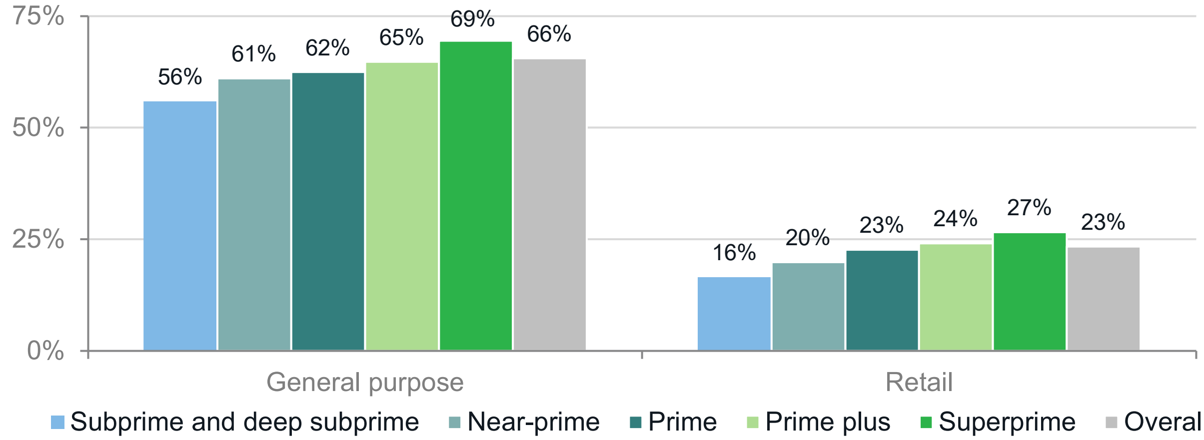
FIGURE 18: QUARTERLY DISPUTE AND CHARGEBACK VOLUME AS A PERCENTAGE OF PURCHASE VOLUME (MMI)



Consumers with higher scores have marginally higher approval rates for disputes on both general purpose and retail cards, and retail cardholders are less likely to receive credits in response to disputes than on general purpose accounts. General purpose cards represent more than 85 percent of disputes by dollar volume in 2022, with retail cards accounting for the remainder. Consumers won 60 percent of disputes on general purpose cards in 2022, compared to 2019, when consumers won less than 50 percent of disputes. On retail cards, the chargeback dollar amount was only about one-fourth of the disputed purchase volume. Across card types, cardholders with superprime scores receive credit at a rate 10 percentage points higher than accounts with subprime or deep subprime scores.

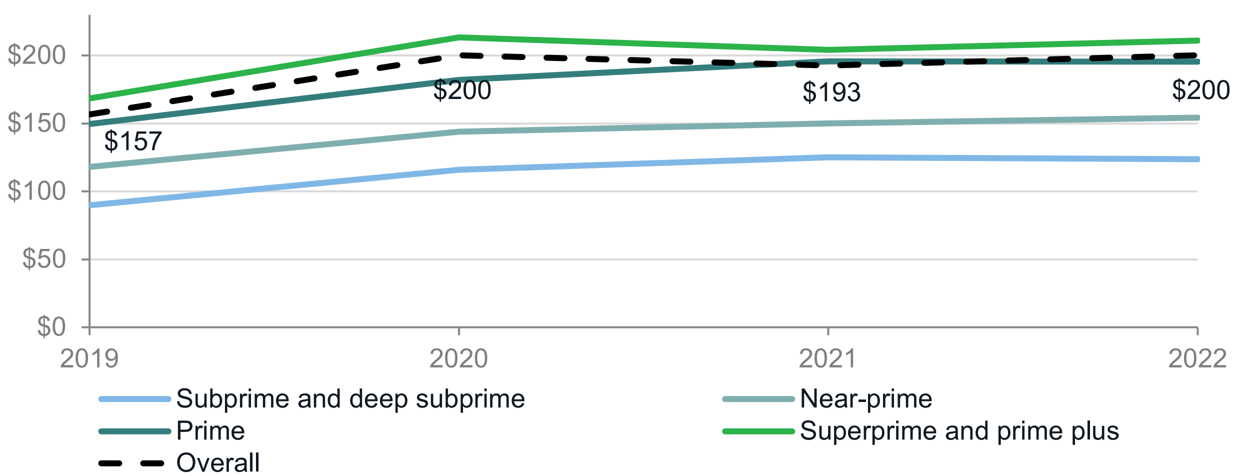
[256] For more information on purchase volume, *see* Section 3.1.

FIGURE 19: ANNUAL CHARGEBACK DOLLAR AMOUNT AS A SHARE OF DISPUTED PURCHASE VOLUME, 2022 (MMI)



Since the pandemic, the average chargeback amount has increased and remained high, with higher scored cardholders receiving larger credits than those with lower scores. The average value of a credit in response to a dispute has been about $200 on general purpose and retail cards since 2020, a 27 percent increase from 2019 levels. Accountholders with scores above 720 typically received $211 per successful dispute; issuers credited accounts with scores at or below 620 with an average of $124 per chargeback. These differences likely stem from the positive correlation between purchase volume and credit score, discussed in Section 3.

FIGURE 20: AVERAGE CHARGEBACK AMOUNT (MMI)



Violations of Regulation Z's billing error resolution provisions are one of the most common issues identified by the CFPB in assessments of credit card account management operations. Certain entities have been identified as failing to send acknowledgement of a billing error notice within 30 days, resolve the dispute within two billing cycles, conduct reasonable investigations, or provide explanations when determining no billing error occurred.[257] In 2023, the CFPB reached a settlement to resolve allegations that Citizens Bank failed to reasonably investigate and resolve billing error notices and claims of unauthorized use by making customers jump through unnecessary and burdensome hoops, violating the Truth in Lending Act and its implementing Regulation Z.[258] On the merchant side of the dispute process, the FTC and the State of Florida filed suit against Chargebacks911 in 2023, alleging that the "chargeback mitigation" company used unfair techniques to prevent consumers from successfully winning chargeback disputes.[259]

6.7 Account servicing

Consumer adoption of digital account servicing tools grew partially in response to the disruption caused by the pandemic, and our data show those behaviors have persisted through 2022. Bank branch closures, shortened hours, and social distancing may have incentivized consumers to use online or mobile tools to make payments, check balances or deposit checks. Additionally, mail delays may have encouraged some people to more frequently opt for electronic statements than in pre-pandemic periods. While many of the effects of the pandemic have dissipated, most indicators of digital account servicing show continued use as consumers continue to find value in these tools.[260] However, data also show that despite the pandemic, some cardholders continue to interact with banks via traditional non-digital channels. Some cardholders appear concerned by digital servicing developments, opting out of certain forms of information sharing or expressing discomfort with certain uses of AI in account servicing.[261] The CFPB continues to

[257] CFPB, *Supervisory Highlights, Issue 28*, at 12 and 13 (Fall 2022), https://files.consumerfinance.gov/f/documents/cfpb_supervisory-highlights_issue-28_2022-11.pdf; Claire Tsosie, *When Credit Card Disputes Become 'Friendly Fraud',* Nerdwallet (Jun. 30, 2023), https://www.nerdwallet.com/article/credit-cards/you-can-dispute-credit-card-purchases-but-should-you.

[258] CFPB, *CFPB Action to Require Citizens Bank to Pay $9 Million Penalty for Unlawful Credit Card Servicing* (May 23, 2023), https://www.consumerfinance.gov/about-us/newsroom/cfpb-action-require-citizens-bank-pay-9-million-unlawful-credit-card-servicing/.

[259] FTC, FTC, Florida Attorney General Sue Chargebacks911 for Thwarting Consumers Who Were Trying to Reverse Disputed Credit Card Charges, (Apr. 12, 2023), https://www.ftc.gov/news-events/news/press-releases/2023/04/ftc-florida-attorney-general-sue-chargebacks911-thwarting-consumers-who-were-trying-reverse-disputed.

[260] *See* Comment Letter CFPB-2023-0009-0084-A1.

[261] One commenter expressed concern that many consumers who interact with their accounts digitally are not receiving mandatory disclosures because they are not reviewing statements in that channel. *See* Comment Letter CFPB-2023-0009-0090. Many commenters expressed frustration that customer service automation can lead to long delays and an inability to resolve some account issues. *See, e.g.*, Ann Brainard Comment Letter, Larry Ulrey

monitor the use of AI by financial institutions to ensure compliance with existing consumer protections.

6.7.1 Digital tool use

Cardholders are using digital credit card account servicing tools more, with greater adoption of mobile apps and e-statements since our last report, while online portal enrollment declined slightly. For the first time, enrollment in mobile applications surpassed that of online accounts, suggesting a preference among some cardholders for mobile-first banking technology.[262] The share of consumers electing to receive statements electronically rather than by mail is continuing to increase rapidly; in 2022, more than two out of three consumers received only e-statements for their general purpose credit cards.[263] Online account enrollment declined slightly in 2021 and 2022, relative to 2020, possibly as banks began reopening after the relaxing of pandemic-era safety policies. One survey found online enrollment correlated negatively with age, with younger cardholders more likely to establish online access.[264] Cardholders who decide not to set up online account access tend to prefer physical statements from the mail, voice concerns regarding the safety of online accounts, and state a preference for banking simplicity.[265]

Comment Letter, Ruth Sheets Comment Letter, Shannon Kelley Comment Letter, and Cathy Lewis-Dougherty Comment Letter.

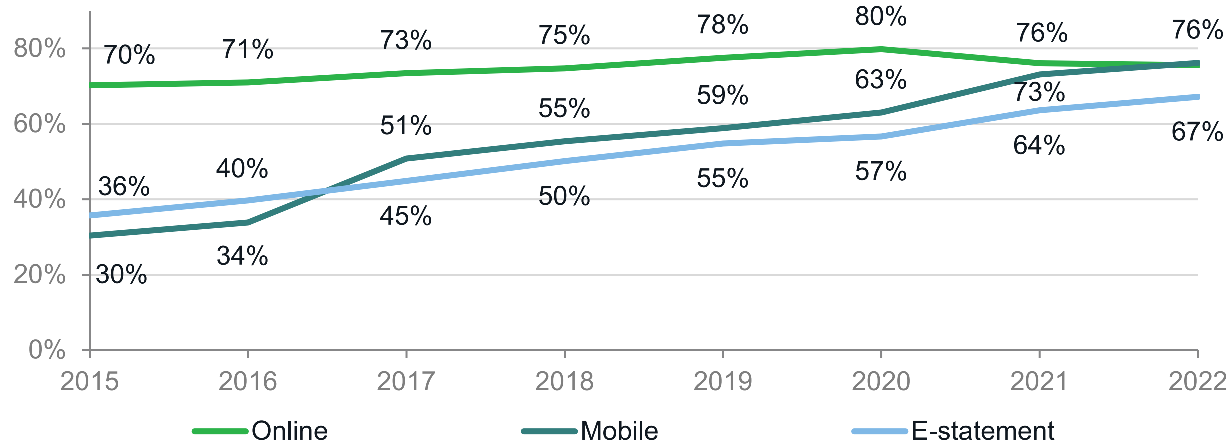
[262] Industry trade groups note that "Consumers are increasingly choosing to receive account disclosures, statements, and other documents electronically for a variety of reasons, including convenience, accessibility, speed, security, health and safety, and environmental concerns..." *See* ABA, CBA, NAFCU Comment Letter, at 13-15.

[263] One commenter claims e-statement adoption could be driven by credit card issuers' use of "deceptive practices to push consumers to opt-in to electronic statements" and recommends the CFPB require issuers to inform "cardholders of their right to receive paper statements." *See* National Consumer Law Center Comment Letter, at 12-13.

[264] One survey by Auriemma Consulting Group found higher rates of reported online access for credit cards currently held, but also found younger cardholders were more likely to say they had set up online access for their cards. *See* Auriemma Consulting Group, *Personalizing Online Tools and Card Controls, Financial Wellness, Buy Now, Pay Later, and AI Chatbots, The Payments Report*, at 19-20 (May 2023).

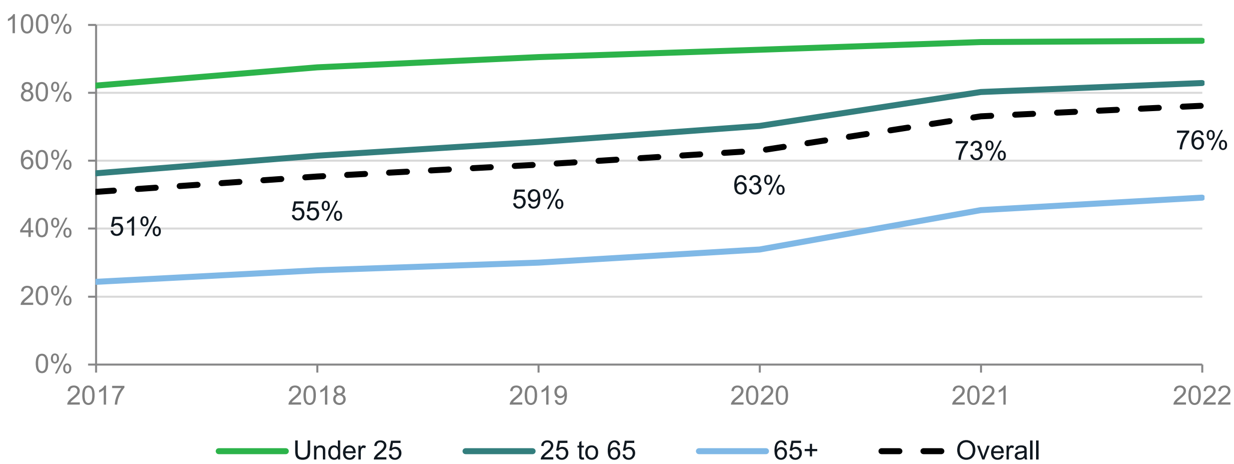
[265] *Id.* Another commenter notes that those who do not receive physical statements may be missing certain disclosures, such as "information about the costs of carrying a balance." *See* Anonymous Comment Letter (CFPB-2023-0009-0090).

FIGURE 21: SHARE OF ACTIVE ACCOUNTS ENROLLED IN ONLINE PORTAL, MOBILE APPS, AND RECEIVING ONLY E-STATEMENTS, GENERAL PURPOSE (MMI)



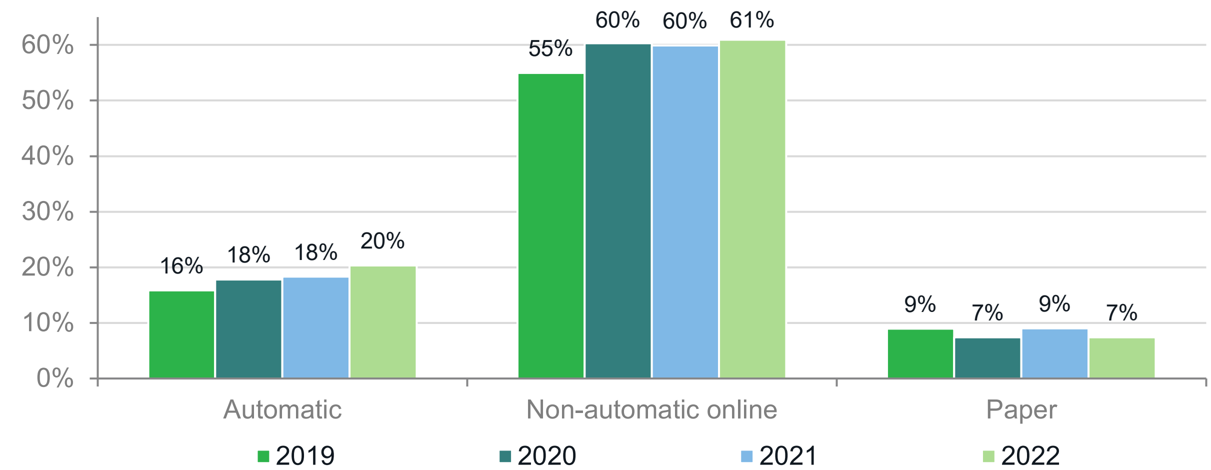
Adoption of card issuer mobile apps continued to grow for users of all age groups, with greater levels of adoption by younger consumers. Users under age 25 continued to use mobile apps at a high rate, surpassing 95 percent in 2022. Enrollment in mobile applications continued a six-year trend of increasing adoption for both users aged 25 to 64 and over 65, reaching 83 percent and 49 percent respectively. While the pandemic may have contributed to accelerating the adoption of mobile apps in 2020 and 2021, enrollment has been increasing steadily for all age groups over many years, as shown in Figure 22. Overall, three out of four active accounts were enrolled in mobile apps in 2022.

FIGURE 22: SHARE OF ACTIVE ACCOUNTS ENROLLED IN MOBILE APPS BY AGE, GENERAL PURPOSE (MMI)



Cardholder payments demonstrate a continued gradual shift toward automatic and online methods. As shown in Figure 23, 61 percent of active accounts made a non-automatic payment online or via mobile app in the last billing cycle of 2022, and another 20 percent made a payment via autopay, both new highs in our data. Despite the trend toward digital payments, there remain a share of accounts that continue to mail in paper checks to pay their credit cards, at seven percent in 2022.

FIGURE 23: SHARE OF ACTIVE ACCOUNTS THAT MADE A PAYMENT IN THE LAST CYCLE OF THE YEAR BY PAYMENT METHOD, GENERAL PURPOSE (MMI) [266]



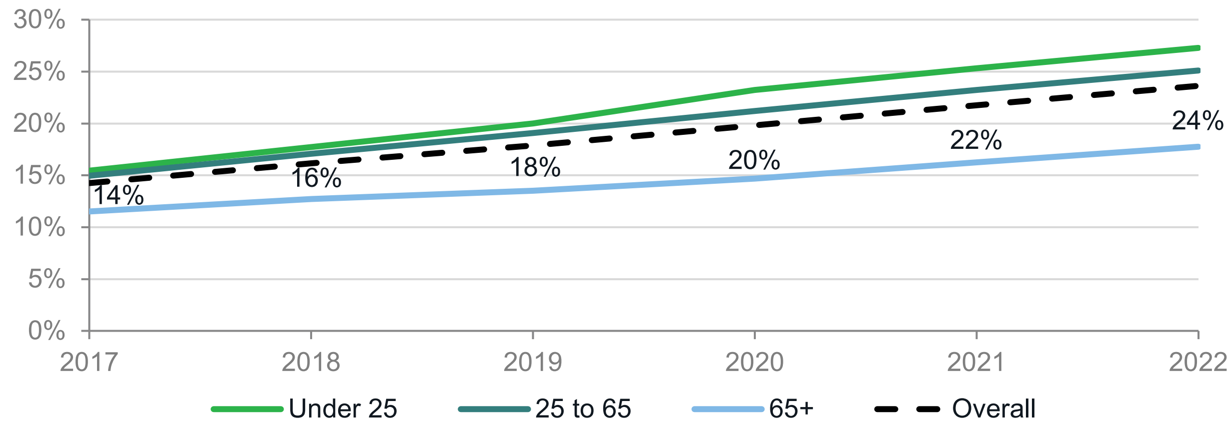
The share of consumers enrolled in automatic payments continues to increase for all age groups. While automatic payment usage was highest among cardholders under 25 at 27 percent in 2022, all age groups saw automatic payment enrollment rise four to seven percentage points since 2019. Cardholders can typically choose between making automatic payments for the minimum payment due, the total statement balance, or a fixed other amount. Establishing automatic payments may be done online, or may be facilitated by mobile apps, of which adoption is growing rapidly. Increased use of automatic payments is generally a positive sign for consumers, since automatic payments set up in advance can ensure cardholders who forget to make a payment by the due date can still avoid late fee charges, assuming the automatic payment goes through in an amount greater than or equal to the minimum payment amount. [267] Automatic payments may also be a way to avoid paying interest on balances and new purchases if set at a level at least equal to the cardholder's statement balance. However, if an account is revolving

[266] Values do not sum to 100 percent as certain forms of payment, such as telephone and payments from a third-party, are not included.

[267] If a cardholder sets automatic payments at a fixed dollar amount each month that would not satisfy at least the minimum payment, issuer practices vary in whether they will increase the automatic payment to at least the minimum payment or move forward with the set amount and assess a late fee unless the customer makes additional payments. *See* CFPB, *Supervisory Highlights, Issue 28, Fall 2022*, (Nov. 16, 2022), at 16, https://www.consumerfinance.gov/data-research/research-reports/supervisory-highlights-issue-28-fall-2022/.

and paying some amount less than the total balance due, autopay may cause them to incur interest on the difference.[268] An automatic payment later in the billing cycle is also more costly for cardholders who are no longer in their grace period or revolving a balance: interest accrues since the time of purchase for the former and on average daily balances for the latter. Earlier or more frequent payments would reduce finance charges compared to an automatic payment later in the cycle for some cardholders.[269]

FIGURE 24: SHARE OF ACTIVE ACCOUNTS ENROLLED IN AUTOMATIC PAYMENTS BY AGE, GENERAL PURPOSE (MMI)



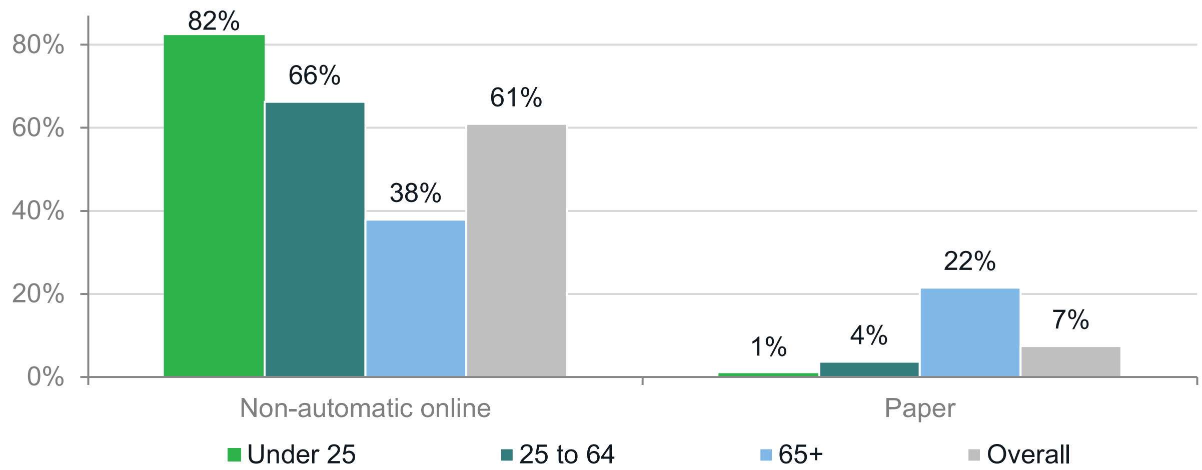
Non-automatic electronic payments remain the most common payment method across all age groups, but a significant share of older Americans continue to use paper checks for card repayment. Younger cardholders continue to make electronic payments at higher rates than older cardholders, but electronic payment usage by all cardholder groups was virtually unchanged from 2020. Older Americans are the primary users of paper checks for credit card repayment. Less than one percent of payment-making cardholders under age 25 and less than four percent of those 25 to 64 made a payment by paper in the last cycle of 2022. In contrast, nearly 22 percent of cardholders over age 65 made at least one paper payment in the last cycle of 2022. Paper methods of payment may be the only option available to some cardholders, such as those without internet access. Some cardholders rely on paper payments for budgeting (*i.e.*, balancing a checkbook) and reviewing transactions to spot fraud or overcharging. However,

[268] Additionally, if the consumer's bank account lacks sufficient funds to cover the payment, the consumer generally will incur an NSF fee or overdraft fee from their bank.

[269] At least one major issuer provides instructions online providing cardholders with the option to split automatic payments into two equal amounts in a given cycle, but automatic payments are generally assessed monthly. See Citi, *Set up AutoPay*, https://www.citi.com/CRD/PDF/CITI_AUTOPAY_ENROLL.pdf (last accessed July 7, 2023).

paper payment methods come with additional risks, such as mail delays that can result in late payment fees and interest rate increases, as noted by many commenters. [270]

FIGURE 25: SHARE OF ACTIVE PAYMENT-MAKING ACCOUNTS THAT MADE AT LEAST ONE PAYMENT IN THE LAST CYCLE OF THE YEAR BY AGE AND PAYMENT METHOD, GENERAL PURPOSE, 2022 (MMI)



6.7.2 Developments

INFORMATION SHARING

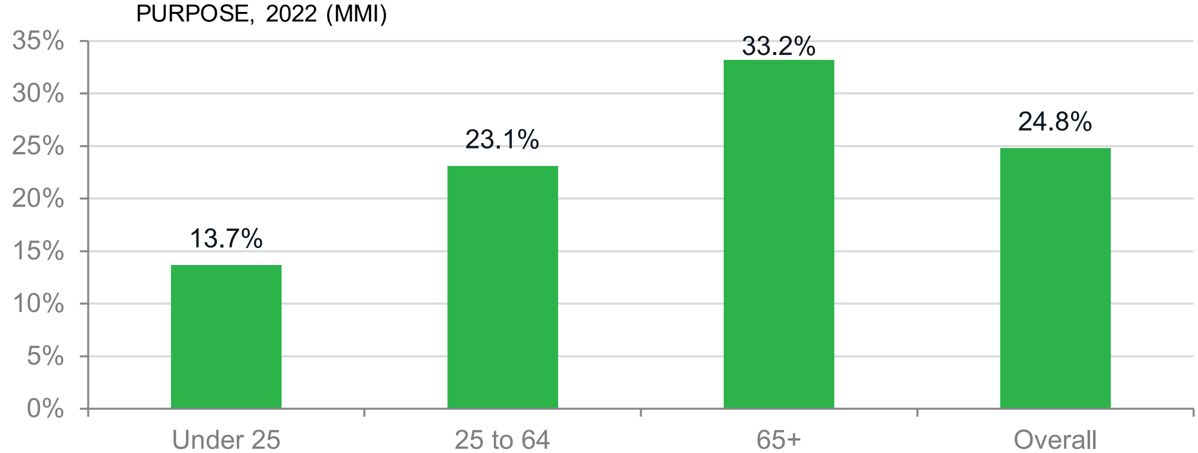
One in four active accounts had affirmatively opted out of any form of consumer information sharing at the end of 2022, with older cardholders more likely to have opted out than younger cardholders. One in three cardholders over age 65 had opted out of information sharing, compared to one in four ages 25 to 64 and one in seven under age 25. Information collection and sharing policies vary, but generally involve anonymized data regarding individual purchases that can be used by the company or sold to another company for marketing purposes. In some cases, the data collected may result in more targeted advertising, providing cardholders with offers that may be more likely to interest them. In other cases, the data collected could result in some consumers receiving offers with more expensive personalized pricing for the same product compared to other consumers. While consumers can opt out of some forms of data sharing, they cannot opt out of all forms, such as data sharing with affiliates. [271] As analytical tools have become more sophisticated, transaction data have become more valuable, and the risks of fair

[270] *See, e.g.*, Betty Brendel Comment Letter, at 1; John Duggan Comment Letter, at 1; Robert Posch Comment Letter, at 1.

[271] *See, e.g.*, Chase, *U.S. Consumer Privacy Notice*, https://www.chase.com/digital/resources/privacy-security/privacy/consumer-privacy-notice.html. *See also* Bank of America, *U.S. Consumer Privacy Notice*, https://www.bankofamerica.com/security-center/consumer-privacy-notice/.

lending law violations, customer re-identification, or use by nefarious actors have also increased.[272] Business practices involving the collection and sale of consumer data, such as the use of digital dark patterns to obtain consent, are an area of continued concern for the CFPB.[273]

FIGURE 26: SHARE OF ACTIVE ACCOUNTS OPTED OUT OF INFORMATION SHARING BY AGE, GENERAL PURPOSE, 2022 (MMI)



ARTIFICIAL INTELLIGENCE

The development and implementation of technology marketed as AI has the potential to improve the customer experience, but also carries some risks for cardholders. AI can be used to automate functions, assist in completing tasks and making decisions, and can result in cost savings and operational efficiencies. In the credit card context, AI is already integrated into interactive customer service chatbots, reward program personalization, credit underwriting, marketing, and fraud detection. Credit card companies are using automated decision-making models in credit underwriting in efforts to reduce default rates.[274] Automated decision-making tools have also been used for fraud detection for several years by banks, card networks, and

[272] These risks have drawn increased attention from Congress in recent years. *See, e.g.*, Sherrod Brown, *Letter from Senator Sherrod Brown to Secretary Janet Yellen*, (June 7, 2022), https://www.banking.senate.gov/imo/media/doc/brown_letter_fsoc_0607221.pdf.

[273] *See* 88 FR 16951, (Mar. 31, 2023), https://www.federalregister.gov/documents/2023/03/21/2023-05670/request-for-information-regarding-data-brokers-and-other-business-practices-involving-the-collection. *See also* FTC, *Bringing Dark Patterns to Light*, (Sept. 2022), https://www.ftc.gov/system/files/ftc_gov/pdf/P214800%20Dark%20Patterns%20Report%209.14.2022%20-%20FINAL.pdf, at 15.

[274] *See, e.g.*, Discover Financial, *Discover Partners with ZestFinance to Implement AI-Based Underwriting Platform*, (May 4, 2019), https://investorrelations.discover.com/newsroom/press-releases/press-release-details/2019/Discover-Partners-with-ZestFinance-to-Implement-AI-Based-Underwriting-Platform/default.aspx.

third-party technology companies.[275] More recently, companies are exploring the use of AI to analyze customer data to better predict customer patterns and behaviors, leading to changes in customer service functions.[276] One company promises card companies improved credit card loyalty with a "generative" AI solution.[277] The CFPB, along with other financial regulatory agencies, is monitoring the financial industry's use of technology marketed as AI and is committed to enforcing existing consumer protection laws regardless of whether legal violations occur through traditional means or advanced technologies.[278]

In recent years, card companies have introduced AI-powered chatbots to navigate and execute digital account management functions and make transactions.[279] As noted in our previous report, user engagement with chatbots has risen significantly since the beginning of the pandemic, and recent estimates suggest that 37 percent of the U.S. population interacted with a bank's chatbot in 2022.[280] Chatbots can provide many of the same account servicing features that humans customer service representatives can do, without the wait. While chatbots can be useful for resolving some basic inquiries, their effectiveness wanes as problems become more complex. Recent CFPB research identified a variety of negative consumer outcomes due to the technical limitations of chatbot functionality, including wasted time, inability to reach a human, and inaccurate information.[281] As with any technology, chatbots must comply with all applicable

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275 *See, e.g.*, Sara Castellanos and Kim S. Nash, Wall St. J., *Bank of America Confronts AI's 'Black Box' With Fraud Detection Effort*, (May 11, 2018), https://www.wsj.com/articles/bank-of-america-confronts-ais-black-box-with-fraud-detection-effort-1526062763; Tim Maxwell, Bankrate, *How major credit card networks protect customers against fraud*, (Apr. 24, 2023), https://www.bankrate.com/finance/credit-cards/major-credit-card-networks-protect-against-fraud/.

276 *See, e.g.*, Carl Franzen, VentureBeat, *AmEx is experimenting cautiously with generative AI for fintech*, (May 29, 2023), https://venturebeat.com/ai/amex-is-experimenting-cautiously-with-generative-ai-for-fintech/.

277 *See* Alex Olesen, Persado, *Generative AI to Improve Credit Card Loyalty*, (Jan. 20, 2023), https://www.persado.com/articles/generative-ai-to-improve-credit-card-loyalty/.

278 *See* CFPB., *Joint Statement on Enforcement Efforts Against Discrimination and Bias in Automated Systems*, (Apr. 2023), https://files.consumerfinance.gov/f/documents/cfpb_joint-statement-enforcement-against-discrimination-bias-automated-systems_2023-04.pdf.

279 *See, e.g.*, Capital One, *Eno is ready to take banking conversations to the next level*, (Oct. 24, 2017), https://www.capitalone.com/learn-grow/money-management/eno-chatbot-banking-conversations-next-level/; Capital One, *Meet Eno*, (last accessed July 19, 2023), https://www.capitalone.com/digital/eno/.

280 2021 Report, *supra* note 3, at 171; Jenna McNamee, *Bank of America adds a human touch to its virtual assistant, Erica*, Insider Intel. (Dec. 14, 2022), https://www.insiderintelligence.com/content/bank-of-america-adds-human-touch-erica.

281 CFPB, *Chatbots in consumer finance*, (June 2023), https://www.consumerfinance.gov/data-research/research-reports/chatbots-in-consumer-finance/chatbots-in-consumer-finance/.

federal consumer financial laws, and entities may be liable for violating those laws when they fail to do so.

Consumers appear more comfortable with certain applications of AI than others, and that comfort level varies widely with age. One study that surveyed banking customers found that 52 percent of people were comfortable with AI providing customer service at their primary bank, but comfort levels ranged from 68 percent for Gen Z and Millennials to 35 percent for Baby Boomers. [282] People in all generations were more comfortable with AI being used to detect fraud, at 62 percent, but less comfortable with AI being used to assess creditworthiness, at 47 percent. [283]

Companies must ensure any use or development of these technologies continues to comply with existing consumer protection laws. AI modeling typically requires the collection of large amounts of consumer data, which increases the risk of consumer harm from the misuse or mishandling of those data. Nefarious actors may use personal data elements to develop more effective spear phishing attacks, which can be easily automated using available AI language tools like ChatGPT, or may convincingly mimic customer service communications using voice cloning, leading to compromised account security. [284] Even well-intentioned developments may risk consumer harm, such as the reliance on datasets that incorporate historical bias, which could lead to discriminatory outcomes in ways that may violate federal laws.

PRE-CHARGE-OFF COMMUNICATIONS

Issuers reported having policies in place that specify the frequency with which their collectors can call, leave voicemails, email, text, and otherwise contact a consumer regarding a delinquent account. Table 2 below provides the ranges of issuers' policy limits on consumer contact via various media and actual average attempts for each of those media. Issuers reported that their call intensity strategies depended on an account's stage of delinquency, risk level, balance size, tenure, and past delinquency frequency, among other factors.

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[282] See Auriemma Group, Personalizing Online Tools and Card Controls, Financial Wellness, Buy Now, Pay Later, and AI Chatbots, The Payments Report, at 80-81 (May 2023).

[283] *Id.*

[284] *See* Cheryl Winokur Munk, Wall St. J., *How Hackers Can Up Their Game by Using ChatGPT*, (June 5, 2023), https://www.wsj.com/articles/hackers-up-their-game-using-chatgpt-fe870ec4. *See also* Andrew Patel and Jason Sattler, WithSecure, *Creatively malicious prompt engineering*, (Jan. 2023), https://labs.withsecure.com/content/dam/labs/docs/WithSecure-Creatively-malicious-prompt-engineering.pdf.

TABLE 2: RANGES OF CONSUMER CONTACT POLICY LIMITS AND ACTUAL AVERAGE ATTEMPTS IN 2022 (MMI)

Policy limit or actual attempts	Phone call attempts per day	Voicemails per day	Postal letters per month
Policy limit	1 to 11	1	1 to 3
Actual average attempts[285]	1.0 to 2.8	0.0 to 0.8	0.3 to 1.5

Issuers reported far fewer contact attempts on average per account than allowed by their own policies. All surveyed issuers reported that their policies included daily caps per account on phone calls. Daily contact attempt policy limits ranged from one call to 11 calls per account, indicating that some issuers imposed stricter limits on phone calls compared to the range of 3 to 11 as reported in the CFPB's 2021 Report. [286] The majority of MMI respondents reported setting a weekly cap of 7 call attempts in 7 days per account or a cap of one call attempt per day.

Issuers reduced slightly both the number of voicemails per account per day and the number of call attempts in 2022. No issuers surveyed for this report allowed more than one voicemail per account per day, compared to a small minority of issuers who reported allowing two voicemails per account per day in the 2021 Report. [287] The actual average number of voicemails per account per day ranged from 0.0 to 0.8, which is a decrease from the 0.0 to 0.9 range reported in the 2021 Report. Along with slightly more restrictive maximums for phone calls, actual average attempts also decreased. In 2022, issuers averaged between 1.0 and 2.8 contact attempts via telephone per day, down from 1.3 to 3.0 reported for 2020. No issuer allowed calls to continue within a given day once a "right party contact" had been made. [288]

Issuers continue to increase their use of email to collect delinquent debt. All the issuers surveyed reported using email as part of their credit card collection strategy, as was the case in 2020 and 2019. However, the reported percentage of email-eligible accounts (defined as accounts for which the consumer provided a valid email address and agreed to be contacted at that address) ranged from 76 to 97 percent, which is up from 2020, in which issuers reported 71.5 to 92.6

[285] Average attempts via the telephone and voicemail channels were defined as the number of calls made or voicemails left to all accounts that were called divided by the number of unique delinquent accounts that were called in each period of time. For postal letters sent, average attempts by letter were defined as the number of letters sent to delinquent accounts divided by the number of unique delinquent accounts. The time frames were daily, weekly, or monthly, depending on common practices in that channel.

[286] 2021 Report, *supra* note 3, Table 1, at 132.

[287] *Id.*

[288] Right party contact occurs when the issuer or collector can reach and speak with the consumer whom the issuer believes is responsible for the debt via telephone.

percent of their accounts being email-eligible. The monthly average percent of email-eligible accounts increased from 68.3 percent in 2018 to 84.1 percent in 2020 to 87.6 percent in 2022. In 2022, roughly two-thirds of accounts with eligible email identification received at least one email related to debt collection.[289] Survey respondents reported that on average, only 36.3 percent of accounts that received email opened their emails. This click-open rate remains low but is an increase from the 31.9 percent click-open rate reported in 2020. This low click-open rate could be attributed to consumer concerns about email spam or scams. An average of less than one percent of emails bounced back, potentially indicating that issuers generally have working emails on their files – this trend has remained consistent from 2020 to the present survey. Many issuers reported using email proactively for account servicing (*e.g.*, sending reminders about a pending withdrawal from a consumer's bank account for a recurring payment) as part of their pre-charge-off communication strategy. Fewer issuers stated that they used email only reactively, such as when a consumer initiated a conversation online or requested that documents be sent by email. Issuers who reported using email typically restricted the number of emails that could be sent to two or three emails per week.

[289] 2021 Report, *supra* note 3, Table 2, at 134.

TABLE 3: MONTHLY AVERAGE EMAIL, TEXT, AND WEB CHAT ELIGIBILITY AND ENGAGEMENT RATES, 2022 (MMI)

	Email	Text	Web chat
Percent of accounts eligible for the channel [290]	87.6%	58.9%	0.9%
Percent of eligible accounts engaged [291]	62.6%	57.7%	Not applicable
Click-open rate [292]	36.3%	Not applicable	Not applicable
Email Bounce-back rate [293]	1.0%	Not applicable	Not applicable
Text opt-out rate [294]	Not applicable	1.3%	Not applicable

The share of issuers using text messages as part of their credit card collection strategy has continued to increase since the CFPB began tracking this figure in its 2017 Report. However, the percent of accounts eligible for text showed a slight decrease from 2020 to 2022, where the account eligibility rate dropped from 60.3 percent to 58.9 percent. Despite this slight drop, the text engagement rates reported showed a significant increase, with the engagement rate rising from 36.6 percent in 2020 to 57.7 percent in 2022. Additionally, the text opt-out rate is notably low, at 1.3 percent. [295] These trends indicate a shift in consumer behavior in the past few years, with more consumers engaging in collection communications via text, similar to trends observed in mobile app usage discussed in Section 6.7.1.

The majority of issuers surveyed offer to engage with delinquent consumers via "web chat," where a consumer can click a chat button on the issuer's webpage to communicate about their debt with a collections agent. However, the percent of eligible accounts engaged via web chat

[290] Defined as the total number of unique delinquent accounts with a consented email address or text-consented cellphone number in a month divided by the total number of unique delinquent accounts in that same month.

[291] Defined as the number of unique delinquent accounts that were emailed in a month divided by the total number of unique delinquent accounts with a consented email address in that same month.

[292] Defined as the number of emails sent to delinquent accounts that were clicked open in a month divided by the total number of emails sent to delinquent accounts in that same month.

[293] Defined as the number of emails sent to delinquent accounts returned undeliverable in a month divided by total number of emails sent to delinquent accounts in that same month.

[294] Defined as the number of consumers who received texts who subsequently opted-out of future communication using the same channel in a month divided by the total number of consumers who received texts that month.

[295] The text opt-out rate was not tracked in the 2021 Report, *supra* note 3.

continues to decline. In the 2019 Report, web chat account eligibility rates were at 2.5 percent. In the 2021 Report, this number dropped to 1.4 percent, and the current web chat account eligibility rates now average at 0.9 percent. This is a sharp contrast to industry-wide trends to greater adoption of digital channels, particularly as engagement rates with text have noticeably risen. It is possible that in-app communication is replacing web chat communication for many consumers with delinquent debts; a growing number of issuers report using mobile apps to communicate with consumers about delinquent balances, with almost half of respondents offering this platform. No respondents reported utilizing social media communication as a collection tool.

6.8 Debt collection

First, this section reviews issuer policies and practices with respect to resolving delinquent debt prior to charge-off, including communication practices, use of first-party and third-party collectors, and loss mitigation programs. Second, this section reports on the recovery of debt following charge-off, including measures of recovery of charged-off debt through various channels, such as third-party agency collections, debt sale, and litigation.

6.8.1 Collections prior to charge-off

This section reviews surveyed credit card issuers' policies, procedures, and practices with respect to resolving delinquent debt prior to accounts reaching 180 days of delinquency, at which time credit card accounts are generally charged off in accordance with OCC guidance. This includes communication policies and practices such as telephone call limits, use of digital channels (email, text, self-serve portals) use of first- and third-party collectors, and loss mitigation programs offered prior to charge-off.

All respondents reported leveraging some pre-charge-off collection activities in-house. An issuer's in-house collection efforts may include such methods as calling, texts, emails, letters, mobile app messaging, and web chat. Most of the issuers also supplemented the activities of their in-house agents with first-party collectors: outside collectors who work under the name and the direction of the creditor when collecting on delinquent debt. An issuer may also turn to a third-party agency to collect in the agency's own name and not in the name of the original creditor. Most of the surveyed issuers worked with third-party collectors prior to charge-off.

FIRST-PARTY COLLECTIONS

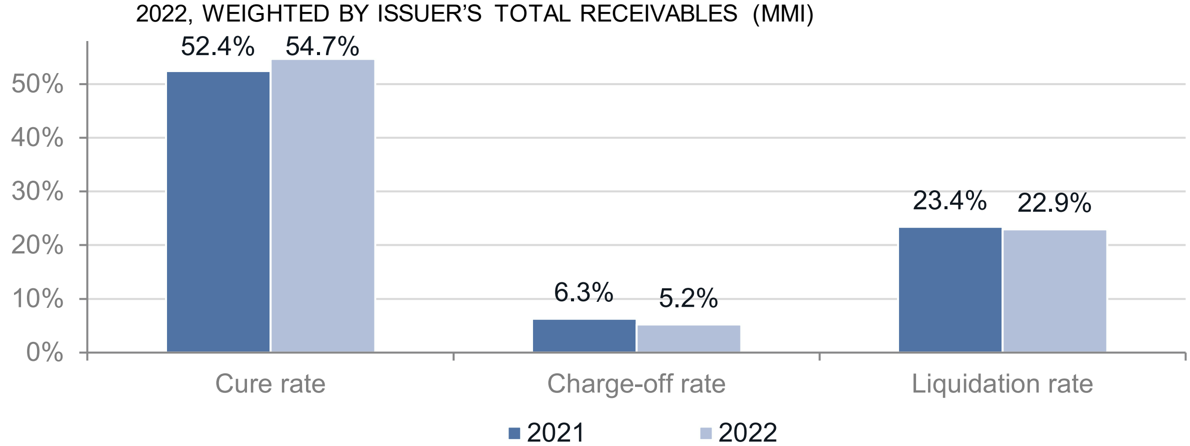
To collect pre-charge-off accounts, only half of the issuers reported using first-party collectors to support in-house collection activities. Almost all issuers typically reported allocating work randomly between in-house and first-party collectors based on collector availability, where first party agents use issuers' own case management system and dialer technology. Issuers reported that they generally do not track pre-charge-off account placements and their performance separately between in-house and first-party collections. However, a minority of respondents allocated only higher-risk accounts to first-party collectors as opposed to in-house collectors, which is consistent with findings reported in past reports as well.

THIRD-PARTY CONTINGENCY COLLECTIONS

More than half of surveyed issuers reported using third-party debt collection agencies on a contingency fee basis for pre-charge-off collections. Only a small share (2.6 percent in 2022) of pre-charge-off collections inventory was placed with these agencies. Generally, high-risk and specialty accounts are segmented and placed with these third-party agencies. For instance, some respondents placed specialized account types with third-party collectors, such as accounts that are represented by for-profit debt settlement companies, accounts of deceased consumers, and accounts for which bankruptcy is pending. Most issuers also provided additional incentives to third-party collectors based on their performance relative to a set financial target or to the performance of other collection agencies.

PERFORMANCE

FIGURE 27: AVERAGE QUARTERLY PERFORMANCE FOR PRE-CHARGE-OFF COLLECTIONS, 2021 AND 2022, WEIGHTED BY ISSUER'S TOTAL RECEIVABLES (MMI)



Pre-charge-off collections performance improved slightly over the two-year survey period. Cure rates increased 2.3 percentage points, going from 52.4 percent in 2021 to 54.7 percent in

2022.[296] Liquidation rates remained constant at 23 percent.[297] Charge-off rates declined slightly, going from an average of 6.3 percent in 2021 to 5.2 percent in 2022.[298]

6.8.2 Loss mitigation and re-aging practices

Credit card issuers used re-aging and various loss mitigation practices, including short- and long-term forbearance programs, debt management plans offered by consumer credit counseling agencies, and debt settlement. Issuers reported that they structured their loss mitigation practices conforming to guidance issued by the Federal Financial Institutions Examination Council ("FFIEC") and the federal banking agencies on the use of these collections tools.[299]

RE-AGING

Re-aging returns a delinquent, open-end credit card account to current status without collecting the total amount of principal, interest, and fees that are contractually due. Issuers' policies allow re-aging of open-end accounts when a borrower makes at least three consecutive minimum monthly payments or an equivalent amount in a lump-sum payment. The number of re-ages on an account is limited to one in 12 months and two in five years. An account that is enrolled in a long-term internal forbearance or debt management program may be eligible for a third work-out re-age within the five-year period. All surveyed issuers' re-aging policies aligned with the guidance offered by the FFIEC and federal banking agencies.[300]

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[296] The cure rate is defined by the sum of unique balances that were delinquent (past due, pre-charge-off) at any point during the given quarter and rolled back to current (returned to 0 days past due) as of the end of the given quarter divided by the sum of unique balances that were delinquent at any point during the given quarter. Balances are counted only once per quarter, at the time when the account or balance became delinquent in the given quarter.

[297] The liquidation rate is defined by the cumulative payments by accounts that were delinquent at the start of the quarter divided by the balances of those accounts at the start of the quarter.

[298] The charge-off rate is defined by the sum of unique balances that were delinquent (past due, pre-charge-off) at any point during the given quarter and were charged off at the end of the given quarter divided by the sum of unique accounts or balances that were delinquent at any point during the given quarter. Balances are counted only once per quarter, at the time when the balance first became delinquent in the given quarter.

[299] *See e.g.*, FFIEC, *Uniform Retail Credit Classification and Account Management Policy*: *Policy Implementation,* 65 FR 36903 (June 12, 2000); Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of Thrift Supervision, *Credit Card Lending: Account Management and Loss Allowance Guidance*, *OCC Bulletin 2003-1*, (Jan. 8, 2003), https://occ.gov/news-issuances/bulletins/2003/bulletin-2003-1.html.

[300] *Id.*

FORBEARANCE PROGRAMS

Forbearance programs are designed to assist borrowers experiencing financial hardship. These programs can be "short-term," aimed at assisting borrowers experiencing hardships expected to last 12 or fewer months, or "long-term," intended to aid borrowers experiencing continued hardships lasting longer than 12 months. Issuers reported that their long-term programs generally require borrowers to repay their credit card debt within 60 months. To meet this amortization timeframe, creditors reduce interest rates, eliminate fees, and lower the monthly required payment amount. All issuers surveyed generally reported assessing borrowers' willingness and ability to pay in determining financial difficulty. All surveyed issuers' forbearance policies aligned with the guidance offered by the FFIEC and federal banking agencies. [301]

Almost half of the survey respondents did not offer short-term forbearance programs over the last several years. All issuers reported that they do not assign hardship program-eligible accounts to third-party collections agencies or allow their third-party collection agencies to offer and enroll borrowers in hardship programs, due to the complexity of managing these programs.

CREDIT COUNSELING AGENCIES

Issuers work with consumer credit counseling agencies ("CCAs") to help borrowers resolve their financial hardships, as an additional component of their loss mitigation efforts. CCAs work with borrowers to develop a budget and a debt management plan ("DMP") for all the consumer's enrolled debts, which may be owed to multiple creditors. These plans generally involve paying creditors a fixed payment amount at a reduced interest rate.

Most respondents reported funding CCAs through a "fair share" payment, which is a payment based on a percentage of the amount the consumer has paid back to the issuer. Fair share payments ranged between two percent to seven percent among the issuers. However, a few of the respondents also fund their CCAs through grant funding to support their consumer financial literacy programs. While all work with non-profit CCAs, some reported working with for-profit agencies as well, though they did not provide any fair share payments to these for-profit CCAs. Several issuers reported working with CCAs to pilot DMPs with extended amortization that extend beyond the traditional 60-month amortization. Several issuers also reported working with non-profit credit counselling agencies on a pilot program that offers a less-than-full-balance settlement program for post-charge-off accounts that do not qualify for a traditional DMP. For example, consumers enrolled in such programs may be able to settle their entire card balance for half of the amount owed with payments in installments lasting up to 36 months. This

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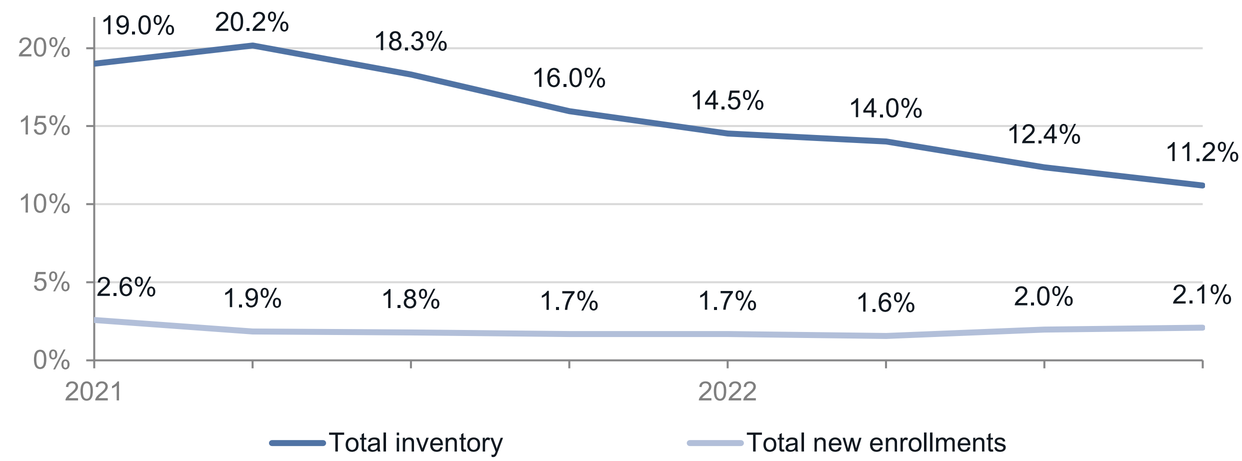
[301] *Id.*

alternative settlement program is designed to provide a lower cost option for consumers who otherwise might consider a for-profit debt settlement company.

FIGURE 28: QUARTERLY LOSS MITIGATION TOTAL INVENTORY VERSUS NEW ENROLLMENTS AS A SHARE OF DELINQUENT BALANCES (MMI)[302]

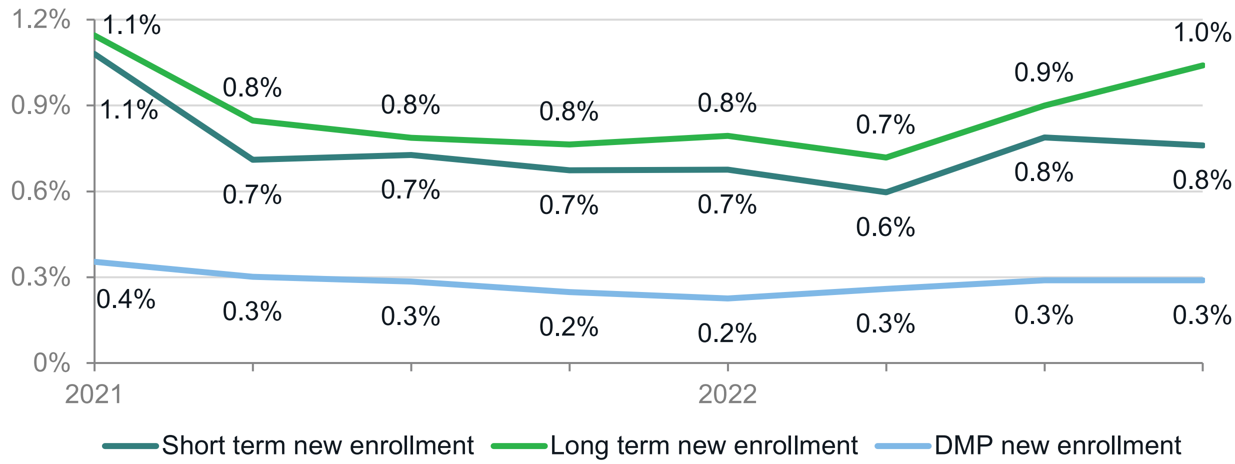


All issuers reported offering one or more types of forbearance or debt management programs with varying interest rates, monthly fixed payment amounts, and amortization periods. Short-term program enrollment spiked during 2020 due to the pandemic. Since then, as seen in Figure 28, the total new enrollment rate, measured as a percent of pre-charge-off delinquent dollars newly enrolled in various forbearance programs and DMPs, has come down and remained well below two percent during 2021 and early 2022. However, given the increase in delinquency, the enrollment rate increased during the last two quarters of 2022. While the total inventory on all loss mitigation programs peaked in Q2 2021, due to pandemic-related enrollments, inventory has been declining steadily during the rest of 2021 and 2022.

As Figure 29 shows, the increase in new enrollment during the latter half of 2022 came from increases in all program enrollments, though internal long-term programs showed more growth than short-term programs or DMPs. The average quarterly new enrollment rate among individual issuers ranged widely from a low of 0.3 percent to a high of 5.5 percent during 2022, potentially due to differing portfolio characteristics and loss mitigation strategies among the issuers.

302 "Inventory" refers to total balances for all accounts that are in active status in a forbearance program as of the end of the quarter.

FIGURE 29: QUARTERLY LOSS MITIGATION PROGRAM NEW ENROLLMENTS AS A SHARE OF DELINQUENT BALANCES (MMI)



DEBT SETTLEMENT

All issuers have policies in place to offer settlements proactively or reactively to consumers who meet the established risk criteria set by the creditor. These offers are extended via in-house operations or through third parties. Pre-charge-off balances are settled with a single lump-sum payment or multiple installments. Installment settlements typically consist of three payments, but pursuant to guidance from the Office of the Comptroller of the Currency for national banks and federal savings associations the total duration of the payments should not exceed three months.[303] However, post-charge-off settlements can be structured over any length of time and generally any reasonable amount of payment is accepted by the creditors and their debt collector for each installment.

As reported in the 2021 Report, the share of delinquent balances enrolled in settlement ("settlement enrollment rate") increased from 2019 to 2020 by 21 percent and nine percent for pre- and post-charge-off, respectively, due to the gains in consumer liquidity from various economic stimulus payments and related debt pay-down by consumers during the pandemic.[304] However, as the Figures 30 and 31 show, the settlement enrollment rate has declined significantly between Q1 2021 and Q4 2022 by 40 percent and 35 percent for pre-charge-off and post-charge-off respectively. The settlement enrollment rate was higher for post-charge-off balances (1.3 percent in 2022) than pre-charge-off balances (0.8 percent in 2022). Among

[303] *See* Office of the Comptroller of the Currency, *Comptroller's Handbook: Credit Card Lending, Version 1.2* (Jan. 2017), https://www.occ.treas.gov/publications/publications-by-type/comptrollers-handbook/credit-card-lending/pub-ch-credit-card.pdf.

[304] 2021 Report, *supra* note 3, at 142.

surveyed issuers, the quarterly pre-charge-off settlement enrollment rate ranged from 0.1 percent to 12.4 percent, and quarterly post-charge-off settlement enrollment rate ranged from 0.3 percent to 10.6 percent.

FIGURE 30: QUARTERLY SHARE OF PRE-CHARGE-OFF BALANCES ENROLLED IN SETTLEMENT (MMI)

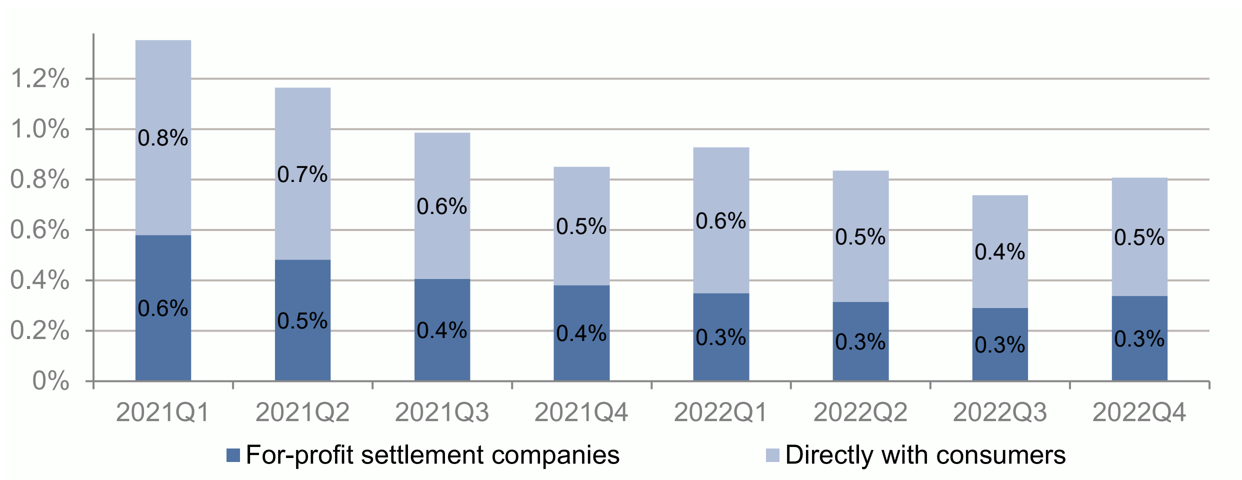
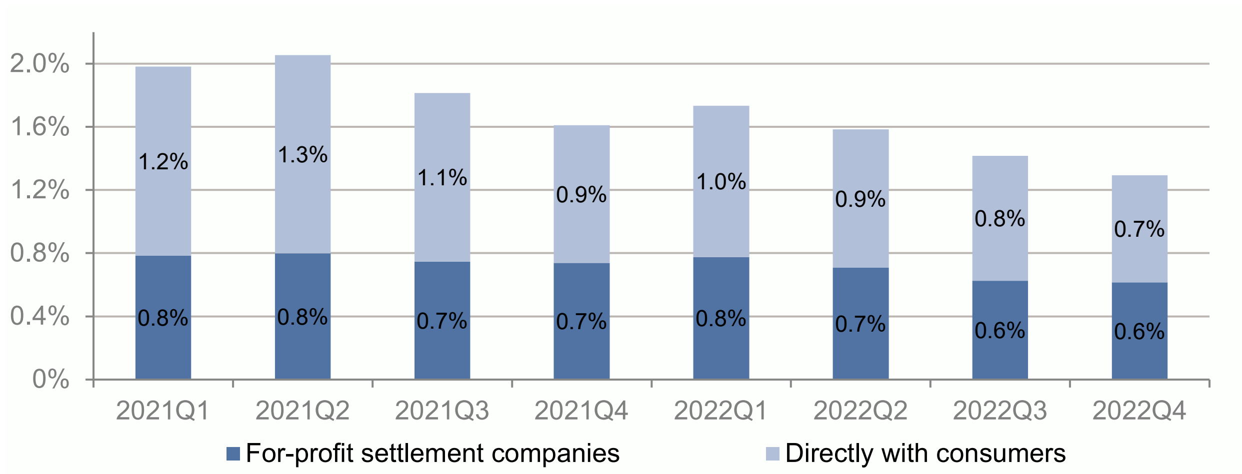


FIGURE 31: SHARE OF POST-CHARGE-OFF BALANCES ENROLLED IN SETTLEMENT (MMI)



Settlement rate generally varied by the age of the debt, with a higher rate for earlier charge-off placements like prime or secondary placements, and lower rate for later placements like tertiary or quad placements. Average settlement rate remained steady between 2021 and 2022 at about 55 percent for pre-charge-off and 51 percent for post-charge-off in 2022, though there was some variation in the rates among individual respondents.

DEBT SETTLEMENT COMPANIES

Borrowers sometimes work with debt settlement companies ("DSCs"), which are typically for-profit entities with the primary objective of enrolling qualified borrowers in a debt settlement program.[305] These firms do not receive any compensation from issuers. Instead, they typically assess the borrower a fee for the services.

All the surveyed issuers have established policies and procedures on how to manage accounts enrolled with DSCs. Most issuers maintain a policy of not working directly with DSCs. Those who work with DSCs require that these companies obtain consumer consent (verbal or written) to work with issuers on the consumer's behalf. Some issuers place accounts that involve DSCs with specialty third-party agencies to review for potential litigation. Most issuers that work with DSCs reported that they offer DSCs the same settlement rates available to consumers who call the creditor directly to request settlements, but there is no charge to consumers who settle directly with the issuer. If a consumer settles through a DSC, they typically incur additional costs of 20 to 25 percent of the balance owed. After significant growth in DSC-facilitated settlements in prior years, DSC settlement volume and total settlement volume declined in 2021 and 2022, presumably due to the availability of pandemic-related stimulus payments, eviction moratorium, and mortgage forbearance. The share of balances enrolled in settlement by DSCs was 58 percent and 42 percent, respectively, for pre-and post-charge-off balances in 2022.

6.8.3 Recovery following charge-off

Once an account charges off, it is placed into one of a variety of recovery channels to facilitate further collections of the balance owed, such as internal recovery, third-party agency placement, pre-litigation and litigation, and debt sale. Issuers may also warehouse certain accounts where balances are considered unlikely to be repaid.[306] As shown in Figure 32, newly charged-off debt ("fresh charge-offs") generally increased from 2015 to 2019 but dipped during the COVID-19 pandemic. In 2022, issuers in the sample charged off $36.5 billion in debt, which represented a 15 percent increase from 2021 but remained below the pre-pandemic peak of $42 billion in 2019.

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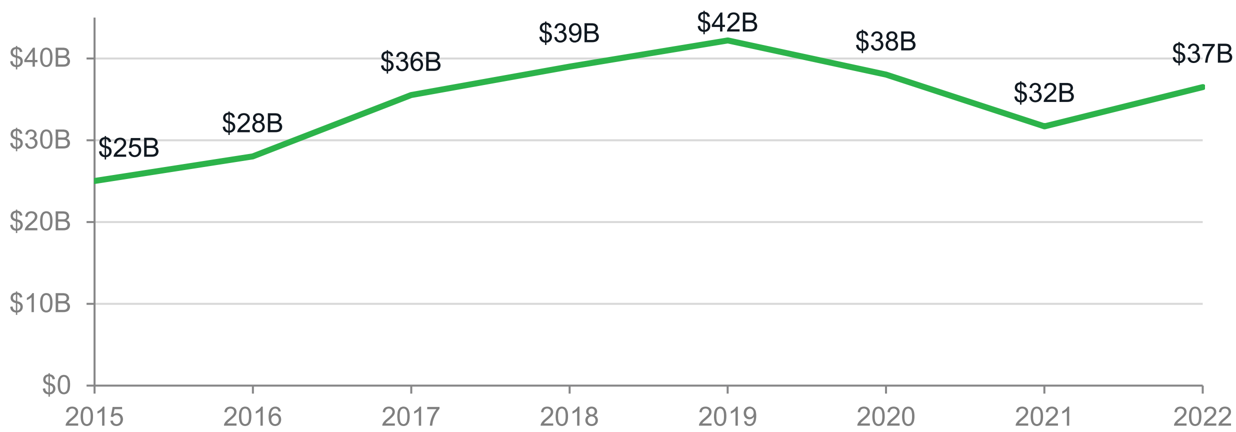
[305] *See* Greg J. Regan, *Options for Consumers in Crisis: An Updated Economic Analysis of The Debt Settlement Industry* (Data as of Mar. 31, 2020), American Fair Credit Council (Feb. 16, 2021), https://americanfaircreditcouncil.org/wp-content/uploads/2020.12.31-AFCC-Report-v.1.19.21-1.pdf.

[306] Warehoused balances are generally those that issuers do not actively seek to collect and generally include accounts issuers considered to be uncollectible or unlikely to be repaid, including older accounts that may be past the statute of limitations. Some issuers also reported that they may place accounts in warehouse status when transitioning these accounts between placements.

FIGURE 32: ANNUAL FRESH CHARGE-OFF BALANCES (MMI)

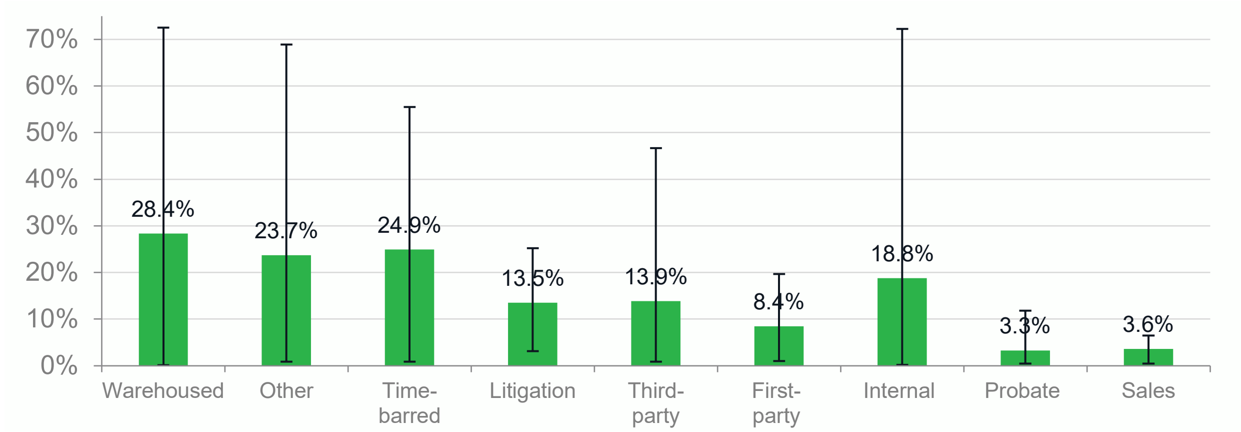


In general, the current survey found that:

- All issuers warehoused a significant portion of their overall post-charge-off inventory;
- All issuers used third-party agencies throughout the entire review period to collect at least a portion of their charged-off debt;
- Most issuers engaged in internal recovery, though for a relatively small portion of their charged-off debt;
- Most issuers engaged in post-charge-off litigation to collect debt from consumers;
- Most issuers reported holding a sizeable amount of debt past the statutes of limitation in their inventory; and
- A minority of issuers, the same ones as reported in the 2021 Report, sold debt in the current survey period as well. No additional issuers expressed an intent to sell going forward.

Figure 33 shows the share of post-charge-off balance inventory allocated to each recovery channel by issuers during the survey period. Surveyed issuers reported holding an average of 28 percent of their overall post-charge-off balance inventory in warehouse status, unchanged from 2019 and 2020. Issuers reported placing 14 percent of their post-charge-off inventory with third-party agencies, down from 18 percent in 2019 and 2020. Third-party placement share ranged from one percent to 47 percent. Internal recovery ranged from less than one percent to 72 percent.

FIGURE 33: SHARE OF POST-CHARGE-OFF BALANCE INVENTORY BY RECOVERY CHANNEL, 2021 AND 2022 (MMI) [307]



On average, issuers litigated 13.5 percent of their post-charge-off balance inventory. Issuers reported that 25 percent of their inventory was time-barred. [308] Finally, as noted in our previous four reports, the same minority of issuers reported leveraging debt sales as part of their post-charge-off recovery strategy. Those issuers who sold debt reported selling an average of 3.6 percent of their total post-charge-off balance inventory, down from five percent in 2019 and 2020. Among issuers who sold debt, a significant share of debt was sold at the time of charge-off. In 2021, issuers who sold debt reported that, on average, 38 percent of their total sales was fresh charge-off debt, ranging from a low of 23 percent to a high of 46 percent. Post-pandemic, issuers in 2022 reported that, on average, 47 percent of their total sales was fresh charge-off debt, with a range in responses from 40 to 57 percent.

INTERNAL RECOVERY

Although internal recovery can be less confusing for consumers than third-party collections, since consumers already have a relationship with the issuer, internal recovery is not a significant piece of most issuers' overall recovery strategy for post-charge-off debt. In Q4 2022, most issuers placed less than ten percent of post-charge-off balances in internal recovery. However, one issuer chose to retain 60 percent of its post-charge-off inventory during Q4 2022. This is a

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307 Green bars represent the average share of post charge-off balances inventory. The issuers provided the status of post-charge-off balance inventory as of the end of each quarter in 2021 and 2022. The distributions for 2021 and 2022 were averaged by issuer, and then averaged across issuers (weighted by total receivables). Black lines running through each bar represent the range of the share of post charge-off balances only for issuers that used that channel. In other words, the ranges do not include zero values, since some issuers did not use that channel. The "Other" category includes the probate channel, and the "Internal" category includes both internal and first-party collections.

308 Time-barred debt means a debt for which the applicable statute of limitations has expired. *See* 12 CFR 1006.26(a)(2).

notable departure from the last survey period, in which the maximum internal placement rate by any issuer was 20 percent.

THIRD-PARTY RECOVERY

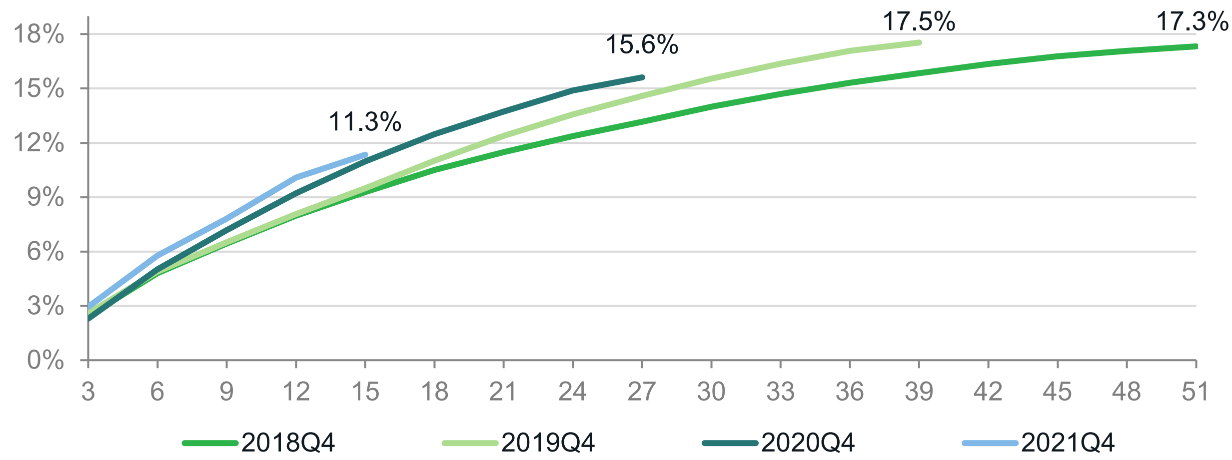
All surveyed issuers employed third-party agencies to recover post-charge-off debt on a contingency-fee basis. Issuers reported placing between one percent and 29 percent of their charged-off balances with third-party agencies during Q4 2022. Issuers described several reasons for placing charged-off debt with third-party agencies, including improved recovery, internal resource constraints, and the need for specialized expertise in recovering certain "special segments" of debt (*e.g.*, debt owed by deceased consumers or accounts with cease communication requests from the debtor).

Recovery performance is measured by the "cumulative recovery rate," which is the share of the charged-off balance that has been recovered since the debt was charged-off. Recovery on charged-off debt can occur over several months or years. As the debt ages, and as the account moves from one placement to another, the incremental share of the charged-off balances that the issuer expects to recover from that account generally decreases.

Figure 34 shows that most recovered post-charge-off debt is recovered during the first year following charge-off. After nearly five years of recovery efforts, approximately 16 percent of the balance owed is recovered, of which about ten percent was recovered within the first year alone.

Figure 34 also shows that recovery performance has been improving over time for debts that charged off between 2018 and 2022. For debt that charged off in the second quarter of 2018, issuers recovered an average of 12 percent of the charged-off balance in the first two years following charge-off. However, for debt that charged off in the second quarter of 2020, issuers recovered an average of 14 percent in the first two years. This improved performance may be partially attributable to pandemic stimulus, forbearance programs, and unemployment insurance programs which improved household finances among low-income consumers in 2021, with some effect continuing into 2022.

FIGURE 34: CUMULATIVE RECOVERY RATES FOR QUARTERLY VINTAGES BY MONTHS FOLLOWING CHARGE-OFF (MMI) [309]



6.8.4 Debt sales

Some credit card issuers sell charged off credit card debt to pre-selected debt buyers, receiving a fraction of the outstanding account balances sold. Typically, these sales are structured as "forward-flow" contracts, where a pool of accounts that meet a pre-determined criteria are sold on an ongoing (*e.g.*, monthly, quarterly) basis. Issuers may sell other special segmented accounts such as where the issuer has received a notice of bankruptcy, or the consumer is deceased, where a specialized expertise may be required to service the amount owed. The 2021 Report noted that creditors, upon sale of the debt, updated the accounts to the credit reporting agencies as "Sold/Transferred" with a $0 balance. [310] However, the current study found that all sellers are deleting the tradeline in its entirety.

MARKET STRUCTURE

The general trend of consolidation among an issuer's debt buyer network seems to continue in the current survey period. The number of unique debt buyers declined from 20 in 2016 to 15 in 2022. The average number of debt buyers per issuer who sold debt remained steady at nine with the range of seven to ten. The four largest debt buyers were reported doing business with all issuers that sold debt in the survey period.

309 Here, each "quarterly vintage" represents balances for all accounts which charged off at any time during the given quarter. Cumulative recovery includes all proceeds collected post-charge-off, including through third-party collections, litigation, and debt sales.

310 2021 Report, *supra* note 3, at 149.

DEBT SALE VOLUME

Fewer than half of issuers surveyed sold debt in 2021 and 2022, unchanged from the 2017 and 2019 Reports. Issuers that reported that they did not sell debt in 2021 and 2022 also indicated that they have no plans to do so in 2023. Most issuers that sold debt during 2022 reported that they planned to sell roughly the same amount as in prior years. However, both of the largest debt buyers in the U.S., PRA Group ("PRA") and Encore Capital Group ("Encore"), increased purchasing volumes in Q1 2023, suggesting a positive industry outlook for the debt buying industry.

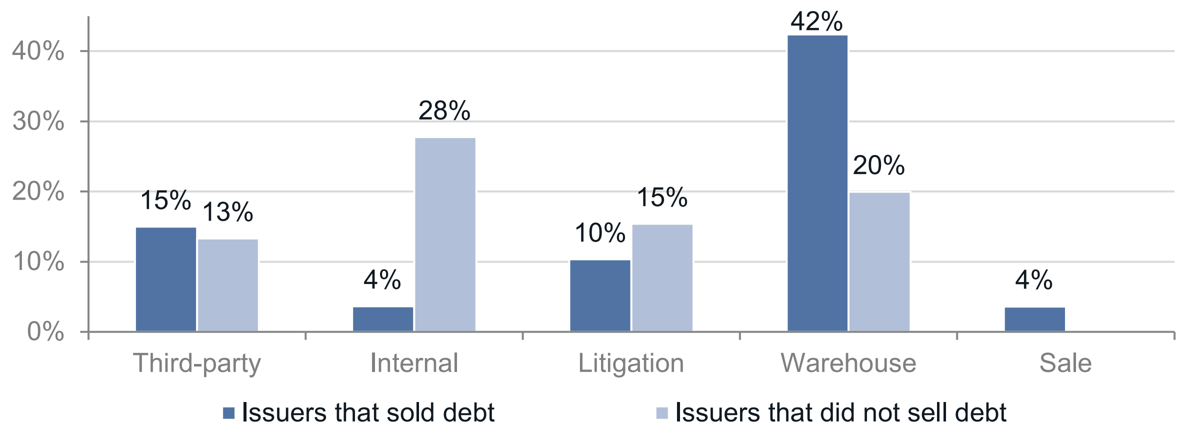
The issuers that sold debt in 2021 and 2022 indicated that they planned to continue to sell mostly fresh charged-off and bankruptcy debt in 2023. In 2022, issuers that sold debt reported selling an average of 20 percent of all their fresh charge-off debt, with a range from 16 to 23 percent. Freshly charged off debt generally liquidates at among the highest levels, and therefore commands higher prices than many other forms of sold debt, with an average price of $0.14 in 2021 and an average price of $0.16 per dollar of the balance sold in 2022. Bankruptcy debt varies in liquidation rate and price depending on bankruptcy type, with prices for Chapter 13 debt generally significantly higher than Chapter 7 debt. In 2022, respondents reported selling Chapter 7 bankruptcy debt for an average of $0.10, compared to an average of $0.25 for Chapter 13 bankruptcy debt.

Issuers that sold debt in 2021 and 2022 reported that over those two years, they sold roughly four percent of post-charge-off inventory, down from five percent as reported in our 2021 Report. This aligns with Q1 2023 earnings reports by the two largest debt buyers, PRA and Encore, citing lower collections resulting from fewer portfolio purchases from previous periods and the post-pandemic economic environment. [311]

Figure 35 compares the distribution of total post-charge-off inventory by recovery channel for issuers that did and did not sell debt in 2021 and 2022. Issuers that did not sell debt kept a greater portion of their post-charge-off balances in their internal recovery and legal channels. All issuers held a significant share of debt in the warehouse category, but debt sellers kept higher percentages, perhaps awaiting ad hoc sale decisions. Issuers who sell debt do so well before accounts reach time-barred status.

[311] Seeking Alpha, *PRA Group, Inc. (PRAA) Q1 2023 Earnings Call Transcript*, (May 8, 2023), https://seekingalpha.com/article/4601739-pra-group-inc-praa-q1-2023-earnings-call-transcript; Seeking Alpha, *Encore Capital Group Inc. Q1 2023 Earnings Call Transcript*, (May 3, 2023), https://seekingalpha.com/article/4599737-encore-capital-group-inc-ecpg-q1-2023-earnings-call-transcript.

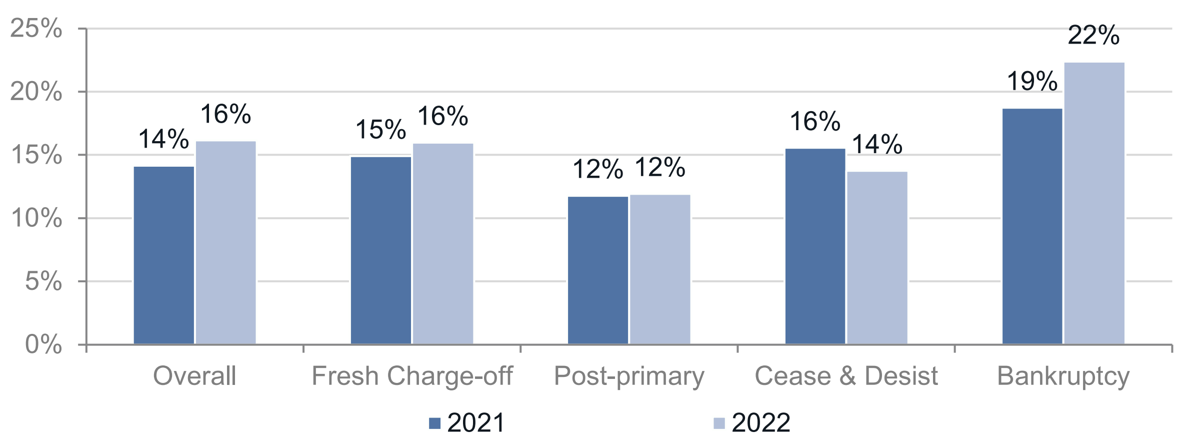
FIGURE 35: SHARE OF CHARGED-OFF BALANCE INVENTORY BY CHANNEL FOR ISSUERS THAT DID AND DID NOT SELL DEBT (MMI)



DEBT PRICE

The overall average price of debt increased from 14 percent to 16 percent of balance owed or "face value," between 2021 and 2022 because of reduced supply over the pandemic period coupled with high demand from debt buyers. Figure 36 shows the average price of debt by type. Charged-off debt generally sells for a fraction of the account face value, at a price largely dependent upon the age of the debt. Additionally, certain special segments of debt, such as accounts for which the issuer has received notice of Chapter 13 bankruptcy, may command higher prices. The price of bankruptcy accounts is above the overall average price of other debt sold, presumably because the buyer may be able to recover a larger portion of the debt by filing proofs of claim as part of the bankruptcy process. However, the price of freshly-charged-off debt increased from 12 percent in 2019 to 16 percent of face value in 2022, equal to the previous high reported in 2016.

FIGURE 36: AVERAGE PRICE OF DEBT SOLD AS A PERCENTAGE OF ACCOUNT BALANCE BY TYPE OF DEBT SOLD (MMI)



Debt sold after one or more placements fetched lower prices (12 percent for post-primary versus 16 percent for fresh charge-off) which is slightly higher than what we reported previously. Accounts where the collector received a request to cease and desist communications was priced at 16 percent in 2021 and 14 percent in 2022, which was higher than the 13 percent reported in the 2021 Report. Accounts for which there was a bankruptcy sold for a significantly higher price of 19 percent in 2021 and 22 percent in 2022 compared to 14 percent in 2018, suggesting higher liquidity of this segment.

DEBT SALE CONTRACTS

All survey respondents that sold debt reported that they provide buyers with key documents and account information at the time of sale, including the account's last 12 statements, and amount and date of the last account payment, in compliance with OCC Bulletin 2014-37.[312] After the debt is sold, issuers reported that they may provide additional documentation at the buyer's request, including cardholder agreements, written applications, affidavits, balance transfer check copies, and earlier account statements. While most issuers who sold debt reported that debt buyers do not pay a fee to access these documents, a minority reported charging a fee (ten cents on average per document) to provide additional documentation. All surveyed issuers that sold debt also stated that they send out "goodbye" letters to the cardholder. These letters inform borrowers of the sale and provide the name and contact information of the buyer.

Debt sale contracts generally do not restrict debt buyers from reporting to credit reporting agencies as the new debt owner. Instead, the contracts require that the buyer adhere to all Fair Credit Reporting Act requirements.

6.8.5 Litigation

All surveyed issuers reported using litigation strategies for both pre- and post-charge-off accounts. Less than half of issuers reported initiating litigation proceedings prior to charge-off. Issuers select accounts for litigation based on factors such as account balance, and estimated likelihood of payment (indicated by the presence of assets and employment income).

The issuers used an extensive network of attorneys to support their litigation strategy in collection. Respondents reported using 98 unique attorney law firms in 2022 to collect debt owed. Part of the reason for a higher number of firms is based on licensing and justification of a firm's coverage of specific states. The average number of attorney law firms used per issuer remained steady at 22 during the survey period, though the range varied from six to 35. Eleven

[312] *See* OCC Bulletin 2014-37, (Aug. 4, 2014), https://www.occ.gov/news-issuances/bulletins/2014/bulletin-2014-37.html.

law firms were employed by more than half of the surveyed respondents. Respondents said that they do not allow law firms to report collection accounts to the credit bureaus.

The average volume of new balances placed in the litigation channel by issuers was steady over the survey period, at 12 percent in both 2021 and 2022. This rate is not inclusive of litigation by debt buyers; balances sold by issuers to debt buyers may subsequently be litigated. Across issuers, litigated balances as a percentage of total post-charge-off inventory ranged from a low of three percent to a high of 25 percent. Although issuers have increased litigation volume since 2020, volume is still well below the pre-pandemic level, which was at 17 percent in 2017-2018.[313]

Survey respondents generally selected higher-balance accounts from their portfolios for litigation. Average post-charge-off litigated account balances ranged from $4,587 to $10,980 across issuers during the current survey period, compared to the range of $2,700 to $12,300 during the previous report period. Pre-charge-off litigated account balances were higher on average, with average balances ranging from $6,415 to $12,706 across issuers, compared to $940 to $5,800 during the previous report period.

DEFAULT JUDGMENTS

A default judgment is a ruling in favor of the plaintiff (collector) when the defendant (consumer) has failed to respond to a summons or to appear in court. More than half of surveyed issuers did not report default judgments separately from other judgments. However, respondents who do track default judgments separately reported that more than 69 percent of all judgments entered were default judgments. This ratio was consistent with our previous reports.

LITIGATION RECOVERY

After a creditor has won a judgment on a litigated collection account, recovery may occur over a prolonged period. To recover the debt, the issuer may exercise a wage garnishment, attach a bank account, or place a judgment lien on real property against the debtor or ask the debtor to enroll in a payment plan. Thus, litigation that results in a judgment generally produces a steady stream of recoveries from accounts with judgments against them, spread over a longer time that may span several years.

Figure 37 shows the cumulative recovery rate by months since judgment for accounts where a judgment was obtained between 2017 and 2022. Issuers recovered an average of 32 percent of all judgment balances at 60 months since the judgment was received, the longest performance window captured in the survey. Accounts with judgments may have higher cumulative recovery rates because issuers disproportionately litigate more accounts with a higher ability to repay, which depends on borrowers' assets, employment, and other income. Cumulative recoveries

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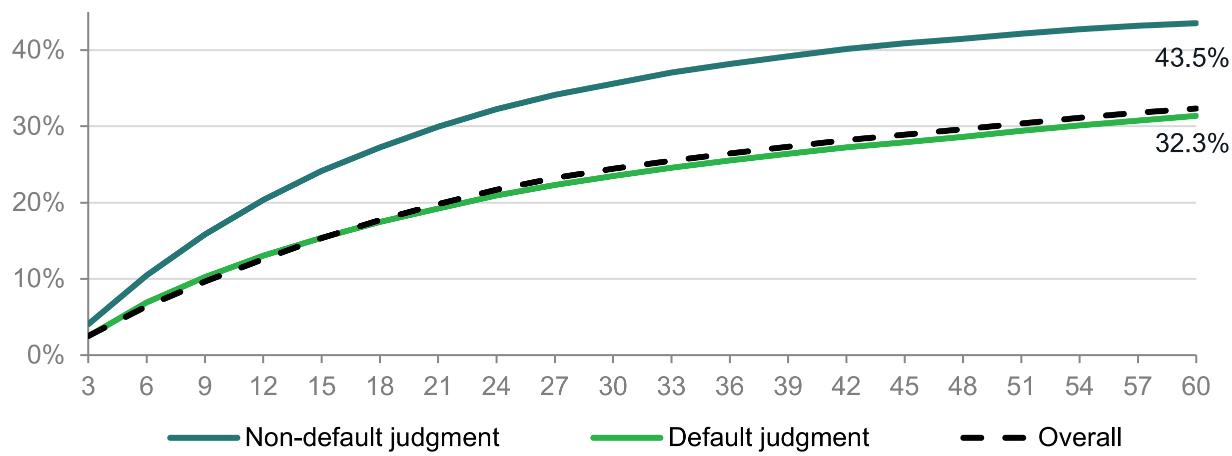
[313] 2019 Report, *supra* note 3, Figure 5, at 153.

from judgment accounts increased steadily over time as each vintage ages and a consistent flow of payments are applied to the account. Accounts with default judgments generally had lower cumulative recovery rates than those with non-default judgments as noted in Figure 37 below (32 percent compared to 44 percent at 60 months since judgment).

FIGURE 37: CUMULATIVE RECOVERY RATES BY MONTHS SINCE JUDGMENT WAS RECEIVED (MMI)



6.8.6 Vendor network and compensation

All surveyed issuers monitored their vendors' collections performance, both relative to the issuer's stated targets and to the performance of other agencies in the network. Some issuers prohibit or strictly limit their third-party collectors from using text to initiate contact with borrowers in post-charge-off collections. Only a minority of the surveyed issuers reported that they sent an agency placement notification letter to the consumer at the time of placement to provide contact information for the agency, so most consumers are not aware that the debt has been placed with the collection agency before they are contacted.

On average, issuers reported keeping 96 percent of pre-charge-off debt balances to be worked in-house and by first-party collectors, with the remaining four percent placed with third-party collectors.[314] The number of unique first-party agencies used across issuers remained relatively stable, with 18 unique agencies in both 2021 and 2022, the same figure as reported in prior survey reports as well. While the average number of unique first-party agencies per issuer

[314] These figures represent the percentage of pre-charge off balances that each issuer retained for in-house and first-party collections and placed with third-party collectors, averaged across all issuers.

remained stable at four in 2021 and 2022, the range widened from one to six in 2020 to two to eight in 2022. The services of one agency were used by half of the respondents.

Almost all surveyed issuers worked with third-party contingency collectors for their pre- and post-charge-off collections, though the network of agencies used decreased compared to prior reports. All surveyed issuers reported using a combined total of 34 unique third-party agencies in 2021 and 30 in 2022. Issuers that used third-party agencies reported employing eight unique third-party agencies on average in 2022, with a low of four to a high of 13. The services of four agencies were used by half of the respondents in 2020.

Typically, first-party vendors are paid on a productive full-time-employee (FTE) basis while third-party vendors are paid a contingency fee as a percentage of the amount of debt collected. Based on the limited survey response received on compensation for first-party collectors, we note that an average first-party FTE is paid between $2,600 to $4,600 per month. The range may reflect the location of the FTE agents, as off-shore and near-shore labor costs are often lower than on-shore. Only half of issuers reported using third party collectors in the pre-charge-off space, while all issuers reported using them in post-charge-off collections. These issuers paid their third-party collectors an average of 14 percent as contingency fee for pre-charge-off collections and this fee remained constant between 2021 and 2022. This is lower than the average third-party pre-charge-off contingency fee of 15.7 percent in 2020, and 15.3 percent in 2018.

Contingency fees for post-charge-off third-party collectors depend on the level of placement (*e.g.*, primary, secondary, tertiary, and quaternary), with later placements typically receiving higher contingency fees as the debt ages and recovery becomes more difficult. Contingency fees paid for various placements remained constant during the survey period. In 2022, issuers paid an average of 21 percent for primary, 27 percent for secondary, 30 percent for tertiary, 36 percent for quaternary placements. Among issuers, contingency fees ranged from 19 to 25 percent for primary placement, from 17 to 31 percent for secondary placement, from 25 to 40 percent for tertiary placement, and from 23 to 47 percent for quaternary placement.

7. Innovation

The CFPB's Congressional mandate to study the credit card market specifically instructs us to review "credit card product innovation." [315] As in prior Reports, we will cover both innovations involving traditional credit cards as well as other innovations from adjacent or overlapping consumer financial markets that have affected the traditional credit card market.

First, this section summarizes innovations discussed in earlier sections of the Report. Second, we highlight recent developments in the market for traditional credit cards, such as the emergence of credit card-as-a-service platforms. Finally, considering this Report's greater focus on competition, we conclude by illustrating how new products and services introduced in adjacent or overlapping consumer financial markets often spur innovation or imitation among traditional credit card issuers. [316]

7.1 Innovations discussed above

- Throughout this report, we refer to several developments and trends relating to innovation in the credit card lifecycle.
  - Section 6.1 covers notable developments in credit cards rewards programs since our last Report;
  - Section 6.2 notes the prevalence and characteristics of installment plans offered in connection with traditional credit card accounts. As discussed in Sec. 7.4, many credit card issuers began offering these installment plan options following growth in the availability of similar products: unsecured personal loans, BNPL products, and point-of-sale installment loans; and
  - Section 6.7 discusses how developments in digital account servicing have changed the cardholder experience.

[315] 15 U.S.C. 1616(a)(4)(D) (2012).

[316] Congress established the CFPB's statutory purpose as ensuring that all consumers have access to markets for consumer financial products and services and that markets for consumer financial products and services are fair, transparent, and competitive. *See* 12 U.S.C. § 5511(a) (2012). The CFPB's objectives include exercising its authorities for the purpose of ensuring that markets for consumer financial products and services operate transparently and efficiently to facilitate access and innovation. *See* 12 U.S.C. § 5511(b)(5).

7.2 Recent developments

This section addresses recent developments and innovations within the credit card market. First, we discuss credit card-as-a-service platforms, which seek to streamline the process of card issuance for retailers and other merchants. Second, we cover the growing use of "soft credit inquiries" in underwriting, which may facilitate credit card shopping and, in turn, bolster competition. Finally, we highlight other developments in the credit card industry related to repayment terms, the physical form of credit cards, digital payments through mobile wallets, and efforts to expand credit card access for those consumers with limited credit history on file with the consumer reporting agencies.

7.2.1 Credit card-as-a-service platforms

As discussed in section 2.3, partnerships between card issuers and merchants are not new, but a new breed of partnership, facilitated by credit card-as-a-service platforms, seeks to streamline the process of issuing merchant-branded cards.[317] Credit card-as-a-service platforms advertise their use of application programming interfaces (APIs) and other technology to help merchants offer branded cards to their customers and issue customized rewards. Meanwhile, these platforms allow those same customers to manage their card accounts through the merchant's website or mobile app. The platforms also tout their ability to lower the cost of and shorten the typical timeframe associated with creating a branded card program.[318] This may appeal to smaller retailers and banks that seek to implement their own branded payment option but find it difficult to either issue cards on their own or develop a partnership with a large bank or credit card issuer.

Like many traditional card partnerships, merchants turn to credit card-as-a-service platforms to offer a merchant-branded financing option to customers, in the hope that doing so drives further spending and engagement with the merchant. Merchants using these platforms also similarly monetize customers' use of their cards by retaining a share of the interchange fees associated with each purchase[319] and leveraging data from customers' purchase histories. The

[317] *See* Suman Bhattacharyya, *Inside Marqeta's plans to grow its 'card-as-a-service' offering*, Payments Dive (March 2, 2021), https://www.paymentsdive.com/news/inside-marqetas-plans-to-grow-its-card-as-a-service-offering/595965/.

[318] Business Wire, *First National Bank of Omaha Launches Credit Card-as-a-Service Solution* (August 30, 2022), https://www.businesswire.com/news/home/20220830005403/en/First-National-Bank-of-Omaha-Launches-Credit-Card-as-a-Service-Solution.

[319] Simplifipay, *What is Card as a Service – A Simple Explainer for Businesses* (Feb. 25, 2022), https://simplifipay.com/what-is-caas/.

combination of fee revenue and purchase data allows some merchants to target individual cardholders with specific rewards based on their purchase activity in an effort to drive further spending.

The speed at which credit card-as-a-service platforms enable card account issuance may also generate new use cases for consumers and businesses. Credit card-as-a-service providers may derive a competitive advantage through newer technology and improved user experience without the technical challenges many major issuers may face when updating legacy systems. Using a credit card-as-a-service platform, for example, an airline can push a time-restricted virtual corporate card from its app to the mobile wallet of a traveler at the airport, who can then use it to pay for a hotel or meals after a flight cancellation. [320] The card is then automatically deactivated when the passenger gets on the new flight.

With a credit card-as-a-service platform arrangement, merchants, banks, and non-banks work together to provide all aspects of credit card account management, from origination to servicing. Merchants do not typically set the underwriting criteria for a co-brand partnership in a credit card-as-a-service platform arrangement unless the merchant is providing the underlying funding for receivables via their own balance sheet. Instead, the bank or non-bank lender that funds the credit card receivables – and collects interest income from the cardholder – determines the creditworthiness cutoff for new cards with certain profitability targets in mind. The credit card-as-a-service provider charges a fee associated with each origination, while the merchant partner collects a share of interchange fees. [321] In many cases, credit card-as-a-service providers partner with a bank to issue cards and make corresponding loans, but investors provide funding for those loans. [322] In this scenario, the bank originating the loans may not hold a significant portion of those loans on its balance sheet, as they have been sold to investors.

Partnerships with credit card-as-a-service platforms have grown since our last Report, though recent news suggests that the growth rate of such partnerships has tapered off in recent months.

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[320] U.S. Bank, Company Blog, *With Card as a Service, U.S. Bank sparks more innovation in digital payments* (Dec. 10, 2021), https://www.usbank.com/about-us-bank/company-blog/article-library/with-card-as-a-service-us-bank-sparks-more-innovation-in-digital-payments.html.

[321] Market monitoring suggests CCaaS revenue sharing agreements are oftentimes less generous to merchant partners than traditional co-brand partnerships described in section 2.3.

[322] CCaaS loans are typically originated by a "bank partner" that operates on the CCaaS platform. Platform lending models that involve a bank partner have raised questions about the "true lender" in those models. These questions may be particularly pertinent if interest rates for a loan originated through the platform exceed a state's interest rate cap for that product. *See, e.g.*, Colorado Attorney General, Press Release, *Colorado Attorney General's Office settles lawsuit against lenders for exceeding state interest rate limits on consumer loans* (Aug. 18, 2020), https://coag.gov/press-releases/8-18-20/ (alleging that non-banks Avant and Marlette illegally partnered with two out-of-state banks—WebBank and Cross River Bank, respectively—in a scheme to "rent" those banks' ability to lend above Colorado's rate limits).

Recently, some credit card-as-a-service offerings have been pulled from the market because of financial issues related to the product or merchant.[323] In the modular and decentralized system that credit card-as-a-service supports, problems with one partner (whether merchant, third-party vendor, bank, or non-bank investor) can introduce new risks for consumers if, for example, cardholders become unable to make a payment or lose access to accounts with the failure of one link in the chain.

Some credit card-as-a-service platforms advertise themselves as an efficient "one-stop-shop" for merchants looking to launch their own credit card program.[324] This means that the credit card-as-a-service platform is often relied upon for critical functions such as account management, customer service, or legal and regulatory compliance. In practice, however, many of these critical functions are outsourced to third-party vendors that provide services to the platform. It remains to be seen whether the efficiencies claimed by these platforms are matched by effective execution of these important functions.

7.2.2 Soft credit inquiries

During a typical credit card application process, the applicant provides the issuer with personal information that enables the issuer to check the applicant's credit history with one or more consumer reporting agencies. The consumer reporting agency then records the credit inquiry on the applicant's credit report, regardless of whether the applicant is ultimately approved by the issuer. These "hard" credit inquiries on the applicant's credit report can lower consumer credit scores, all else being equal.[325]

Some issuers are beginning to use "soft" credit inquiries – which are currently designed not to impact credit scores – when determining whether an applicant is approved for a card.[326] American Express, for example, notes that for some of its products, "applicants will be told with 100% certainty if they are approved – without any impact to their credit score," and that a hard

[323] *See* Craig Joseph, *Niche Credit Card Rewards Were Having a Moment — What Happened?*, NerdWallet (May 17, 2023), https://www.nerdwallet.com/article/credit-cards/niche-credit-card-rewards-face-growing-pains.

[324] Skaleet, *Card-as-a-Service: Launch Card Programs for your Customers!* (Sept. 12, 2022), https://skaleet.com/en/blog/card-as-a-service-launch-card-programs-for-your-customers/.

[325] *See* CFPB, *What's a credit inquiry?* (last reviewed September 4, 2020), https://consumerfinance.gov/ask-cfpb/whats-a-credit-inquiry-en-1317/.

[326] *Id.*

inquiry will only be made after the applicant is approved for and accepts a card.[327] Other issuers also claim to rely on soft credit pulls to evaluate eligibility, including issuers of the Apple Card,[328] Discover cards,[329] the Venmo credit card,[330] and the X1 card.[331]

For many borrowers, the use of soft credit inquiries alters the credit card shopping and application process. For borrowers in the shopping process who are unsure of their qualifications, the use of soft inquiries may encourage such borrowers to check their eligibility for a card with better terms rather than applying only for cards for which they may be more likely to qualify. Borrowers who are not approved following a soft pull can move on to the next card application with less concern that the denial has affected their credit score or reduced their likelihood of approval for their next card.

In cases where issuers institute an additional step after approval but prior to account opening, borrowers who are *approved* after a soft inquiry are not required to accept that card offer and may be more likely to consider other cards with better terms.[332] This contrasts sharply with the more typical underwriting process whereby an account is opened automatically after an applicant is approved via a hard inquiry, and a consumer must then close the account if they do not wish to accept the terms offered.

Many issuers using soft inquiries appear to be providing applicants with only the approval or denial decision without a precise APR or credit line offer.[333] If issuers use soft credit inquiries to

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327 American Express, Press Release, *Find Out if You Are Approved for an American Express Personal Card Before Impacting Your Credit Score* (Nov. 21, 2022), https://about.americanexpress.com/newsroom/press-releases/news-details/2022/Find-Out-if-You-Are-Approved-for-an-American-Express-Personal-Card-Before-Impacting-Your-Credit-Score/default.aspx.

328 Apple, *How your Apple Card application is evaluated*, https://support.apple.com/en-us/HT209218 (last accessed Mar. 13, 2023).

329 Discover, *See if you're preapproved with no harm to your credit,* https://www.discovercard.com/application/preapproval/initial? (last accessed June 21, 2023).

330 Venmo, https://venmo.com/about/creditcard/apply1/ ("Apply for the Venmo Credit Card with no impact to your credit bureau score if you're not approved.") (last accessed Mar. 13, 2023).

331 X1 Card, https://x1creditcard.com/ ("See if you're approved with no impact to your credit score") (last accessed Mar. 13, 2023).

332 Not all issuers offering approval via soft pulls provide consumers with this affirmative acceptance step. *See, e.g.*, Venmo, https://venmo.com/about/creditcard/apply1/ ("An approved Venmo Credit Card application will result in a hard credit inquiry, which may impact your credit bureau score.") (last accessed June 23, 2023).

333 Currently, many issuers engage in risk-based pricing and advertise their products with a range of APRs, but the specific APR the applicant will actually receive remains unknown to the applicant until they have been approved.

disclose an applicant's APR or credit line, as some currently do, this greater certainty could provide consumers with an important means of comparing credit card pricing and credit line amount without negatively impacting their credit scores.

While the use of soft credit inquiries for credit card underwriting appears to be growing, it is important to note that other credit markets address the impact of hard inquiries differently, and that a loss of hard inquiry information may affect certain credit scoring models. For example, when a consumer shops for a mortgage, multiple credit checks from mortgage lenders within a 45-day window are usually scored as a single inquiry.[334] This is in part because most consumers only finance one home at a time. Accordingly, consumers can shop around and get multiple preapprovals and official loan estimates with the same impact on their credit score regardless of the number of mortgage applications they make, as long as the last credit check is within 45 days of the first credit check. In unsecured credit markets where consumers apply for more than one loan at a time, such as personal loans and credit cards, moving away from hard credit inquiries *en masse* may affect credit scoring models that previously relied on hard inquiry data as a proxy for credit seeking behavior. On the other hand, if only select issuers make approval decisions based on soft pulls, certain applicant segments – such as subprime borrowers – may disproportionately face the prospect of score degradation resulting from hard pulls.

Consumers and industry participants should also distinguish between the use of soft credit pulls to determine eligibility with "100% certainty," as discussed above, from less certain determinations. In early 2023, the Federal Trade Commission (FTC) issued a consent order to a credit services company for allegedly misrepresenting that consumers were "pre-approved" for credit card offers.[335] The FTC alleged that these purported pre-approvals conveyed false certainty to consumers who ultimately did not qualify for the advertised credit cards and subjected them to unnecessary credit checks.[336]

334 CFPB, *What exactly happens when my mortgage lender checks my credit?* (Mar. 3, 2017), https://www.consumerfinance.gov/ask-cfpb/what-exactly-happens-when-a-mortgage-lender-checks-my-credit-en-2005/ (last accessed Mar. 13, 2023).

335 Federal Trade Commission, Press Release, *FTC Finalizes Order Requiring Credit Karma to Pay $3 Million and Halt Deceptive 'Pre-Approved' Claims* (Jan. 23, 2023), https://www.ftc.gov/news-events/news/press-releases/2023/01/ftc-finalizes-order-requiring-credit-karma-pay-3-million-halt-deceptive-pre-approved-claims.

336 *Id.*

7.3 Additional developments

7.3.1 New repayment terms

Since our last Report, some issuers have begun offering payment cards with repayment terms that differ somewhat from those of typical credit card accounts available today. One personal loan provider offers a card described as allowing "[the cardholder] to obtain a series of closed-end loans" accessed through card transactions,"[337] whereby each purchase that is not paid off immediately is subject to a fixed interest rate and repayment term. Unlike most credit cards, this product does not provide cardholders with a "grace period" – the balance from any purchase will accrue interest if not repaid immediately. While some issuers offer optional installment plans for certain purchases the cardholder selects, this product appears by *default* to fund all card transactions through installment loans.

Another approach is to extend the typical time period during which cardholders can avoid paying interest on purchases. Under many credit card agreements, cardholders will not be charged interest on new purchases if the entire balance is paid by the statement due date each month. One forthcoming product purports not to charge "any interest on purchases which are paid in full within the four billing cycles after the billing cycle in which they posted," as long as the cardholder pays the minimum due each month by the due date.[338] While many issuers have offered zero-percent APR promotions for a certain period of time, these are typically ad hoc promotions that often occur at account opening, and typically only apply to balances accrued or transferred during the promotional term.

Repayment mechanisms may implicate an array of regulatory provisions. The CFPB will continue to monitor new mechanisms to ensure consumers are adequately informed about financial offerings, that consumers are protected from risky practices, and that markets continue to provide consumer-beneficial innovation and competition.

7.3.2 Credit card form factors

The physical form of credit card transactions is also changing. In addition to the growing use of mobile wallets and smartphones at the point-of-sale, which is discussed further in Section 7.3.3,

[337] Upgrade, fn. 3 ("The Upgrade Card is unique in that it allows you to obtain a series of closed-end loans which you may access through transactions such as card purchases up to the approved line amount."), https://www.upgrade.com/upgrade-card/ (last accessed Mar. 13, 2023).

[338] Eve Financial, *Eve Credit Card Important Disclosures*, https://card.eve.co/apply/cardmember-agreement?public=true (last accessed Mar. 13, 2013).

companies are increasingly issuing customers virtual card numbers in addition to, or in lieu of, physical cards. The use of these virtual cards is also becoming more prevalent with Buy Now, Pay Later offerings, which are discussed in Section 6.2. With virtual card numbers, card applicants can transact immediately upon approval and assign virtual cards to particular merchants or transactions. This may enable greater control over transactions, such as by making it easier for customers to cancel recurring subscriptions or free trials by closing the virtual card number associated with the original transaction.[339] The availability of virtual card numbers may also help reduce fraud if the use of a specific number is limited to specific transaction types, dollar amounts, or time periods.

In the realm of physical cards, several companies have been adding new functionality intended to enhance card-related accessibility. One firm has created a "talking card" for visually impaired people who cannot verify the transaction amount keyed in by the cashier at the point of sale.[340] The card connects via Bluetooth to a mobile phone, which then tells the cardholder the amount displayed on the card payment terminal. In a separate initiative, Mastercard introduced in late 2021 a card with distinctive notches on the short side of the card to help visually impaired cardholders distinguish between debit, credit, and prepaid cards and correctly orient them at the payment terminal.[341] For issuers, adding these new functionalities to the traditional credit card form factor may improve service to cardholders with visual impairments.

7.3.3 Mobile and online payment wallets

The availability of digital payment wallets that allow consumers to store payment information and make payments online or via their smartphones has grown significantly since our 2015 Report, the first in our series that discussed such payments.[342] According to a 2022 McKinsey survey on digital payments, more than two-thirds of Americans are expected to have a digital wallet within two years, with 30 percent intending to use three or more digital wallets in the

[339] *See* Frequent Miler, *X1 Card Review* (Feb. 10, 2023), https://frequentmiler.com/x1-card-review-up-to-4x-everywhere-its-here-its-real/.

[340] *See* John Laurenson, *Talking credit cards help visually impaired people prevent abuse*, Marketplace (Jan. 31, 2023), https://www.marketplace.org/2023/01/31/talking-credit-cards-help-visually-impaired-people-prevent-abuse/.

[341] Mastercard, Press Release, *Mastercard introduces accessible card for blind and partially sighted people* (Oct. 25, 2021), https://www.mastercard.com/news/press/2021/october/mastercard-introduces-accessible-card-for-blind-and-partially-sighted-people/.

[342] 2015 Report at 277-283.

coming years.[343] FIS has also estimated that, in the U.S. and Canada, use of digital wallets comprised 29.2 percent of e-commerce transaction value in 2021 and 10.3 percent of point-of-sale transaction value, with those shares estimated to rise to 33 percent and 15 percent, respectively, by 2025.[344]

Digital payment wallets rely on an ecosystem of providers, including phone manufacturers, software developers, banks, card networks, and retail stores.[345] Depending on which entities are involved, a digital wallet can vary along multiple dimensions, including: how the digital wallet is accessed (*e.g.*, through a particular smartphone, app, or in-browser experience); the funding source for the wallet (*e.g.*, credit/debit cards, bank accounts, or retail rewards programs); and level of acceptance (*e.g.*, in-store, peer-to-peer, or in-app/in-browser).[346]

One prominent digital wallet type consists of the "Pay" wallets, which includes Apple Pay, Google Pay, and Samsung Pay.[347] Available to consumers who use an eligible mobile device, users of a Pay wallet add payment card information to the wallet and leverage their mobile device to initiate transactions at participating merchants in-store and online. Mobile wallet transactions may result in revenue sharing with the Pay wallet provider: for example, card issuers pay Apple a percentage of each purchase made by cardholders who use Apple Pay; issuers currently do not pay fees to other Pay wallet providers.[348]

For merchants, accepting one mobile wallet typically requires them to accept all mobile wallets using the same payments technology. Under current network guidelines, if a merchant accepts any contactless payments that rely upon near-field communication (NFC) technology, including some physical cards and mobile wallets like Apple Pay or Google Pay, they cannot refuse to accept the same network's payments from other payment devices using NFC technology, even if they differ in costs or risks.[349] A few major retailers still do not allow contactless payments in

343 Lindsey Anan, et al., *Consumer Trends in Digital Payments*, McKinsey & Co. (Oct. 21, 2022), https://www.mckinsey.com/industries/financial-services/our-insights/banking-matters/consumer-trends-in-digital-payments.

344 FIS, The Global Payments Report (2022), 35.

345 2017 Report at 339.

346 *Id.* at 339-340.

347 *Id.* at 340.

348 *See* AnnaMaria Andriotis, *Apple Pay Fees Vex Credit-Card Issuers*, Wall St. J. (Oct. 5, 2021), https://www.wsj.com/articles/apple-pay-fees-vex-credit-card-issuers-11633449317.

349 *See* Adam J. Levitin, *Pandora's Digital Box: The Promise and Perils of Digital Wallets,* 166 U. Pa. L. Rev. 305 (2018), *available at* https://scholarship.law.upenn.edu/penn_law_review/vol166/iss2/1/.

store, as the high cost of upgrading point-of-sale systems alongside concerns about higher fees for transactions using NFC technology may outweigh consumer demand to "tap-to-pay."[350]

Credit card issuers and networks are both cooperating and competing with mobile wallet providers. Some issuers have made it easier for customers to add credit cards directly to their Pay wallets, such as through the issuers' own proprietary apps or online portals.[351] Issuers have also incentivized cardholders to use their cards in Pay wallets with bonus rewards such as additional cash back,[352] in an apparent effort to establish themselves as the preferred payment method in Pay wallets.

At the same time, large banks are collaborating on a competing digital wallet that can be used to shop online.[353] The service would allow users to pay at participating merchants' online checkouts using debit or credit cards added to the wallet, without the need to enter actual credit card information. The banks are also considering the possibility of adding other payment options, such as enabling payments directly from consumer bank accounts while bypassing card networks. This initiative follows an earlier effort by credit card networks – Visa, Mastercard, American Express, and Discover – to roll out a "click-to-pay" digital checkout option that stores credit card credentials and the cardholder's billing address.[354] While both online checkout options offered by issuers and networks remove the need to share fee revenue with a Pay wallet provider such as Apple, they do not leverage the smartphone for in-store payments – and therefore cannot be used at a physical point of sale.

There is some reason to believe that digital wallets will create additional competition between issuers – including on key terms such as APR and rewards. As noted in our 2015 Report, digital wallets could enable consumers to "use their phones to guide them to the card with the lowest

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[350] *See* Kate Fitzgerald, *Kroger ending long boycott of Apple Pay, other contactless payments*, American Banker (April 17, 2023), https://www.americanbanker.com/payments/news/krogers-long-boycott-of-contactless-payments-is-ending.

[351] *See* Discover, *Add your Discover® Card to Apple Pay. It only takes a moment with your Discover login.*, *available at* https://www.discover.com/credit-cards/digital-wallets/applepay/ (last accessed Mar. 16, 2023).

[352] *See* Michael Potuck, *Discover announces 5% cash back with Apple Pay for the holiday quarter*, 9to5Mac (Aug. 24, 2022), https://9to5mac.com/2022/08/24/discover-apple-pay-cash-back-5-percent/.

[353] *See* AnnaMaria Andriotis, *Introducing Paze, Big Banks' Answer to Apple Pay*, Wall St. J. (Mar. 24, 2023), *available at* https://www.wsj.com/livecoverage/stock-market-news-today-03-24-2023/card/introducing-paze-big-banks-answer-to-apple-pay-xUvUJLKPnezPh2ofjQUj. *See also* Chase, *Paze FAQs*, https://www.chase.com/digital/digital-payments/paze-faqs (last accessed July 28, 2023).

[354] *See* Kimberly Palmer, *'Click to Pay' Simplifies Online Checkout With Credit Cards*, Nerdwallet (Sept. 18, 2020), https://www.nerdwallet.com/article/credit-cards/click-to-pay; *see also* Press Release, *American Express, Discover, Mastercard and Visa Implement Click to Pay to Make Online Checkout Simple and Secure* (Oct. 22, 2019), *available at* https://www.businesswire.com/news/home/20191022005420/en/American-Express-Discover-Mastercard-and-Visa-Implement-Click-to-Pay-to-Make-Online-Checkout-Simple-and-Secure.

APR or the credit card account that provides the most rewards points for that particular type of transaction (*e.g.*, triple points for gas on one card, as opposed to double points for groceries on the other)."[355] Fintech companies now offer mobile and online applications that recommend to a cardholder which card to use at checkout based on the rewards accrued at the merchant.[356] They can also make recommendations on new cards that a consumer might apply for and benefit from based on spending patterns. These applications may make cardholders less likely to stick to one card in their digital or physical wallets.

7.3.4 Innovations related to credit scoring

As discussed in our 2019 and 2021 Reports, the use of new technologies and additional data sources in underwriting may enable greater credit access and availability for some borrowers.[357] CFPB researchers have estimated that millions of U.S. adults lack sufficient credit report information to generate a typical credit bureau score, either because they do not have any reported credit history or because their credit history is limited or stale.[358]

New data sources for underwriting, such as the use of consumer-permissioned data from bank accounts, could make some segment of this population newly eligible for loans–a further subset of which may qualify for credit.[359] The same type of data that allows lenders to evaluate the risk of previously-unscored borrowers could also be used to more accurately predict risk for borrowers who currently have a traditional credit score,[360] leading to either higher or lower access and pricing for this latter group.[361]

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[355] 2015 Report, *supra* note 3, at 279.

[356] *See* Kudos, Frequently Asked Questions, https://www.joinkudos.com/ (last accessed Mar. 14, 2023).

[357] 2019 Report, *supra* note 3, at 182-186; 2021 Report, *supra* note 3, at 159-163.

[358] Kenneth P. Brevoort, Philipp Grimm, & Michelle Kambara, *Data Point: Credit Invisibles*, CFPB, at 6 (May 2015), http://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf.

[359] *See* FinRegLab, *The Use of Cash-Flow Data in Underwriting Credit* (July 2019), 2, https://finreglab.org/wp-content/uploads/2019/07/FRL_Research-Report_Final.pdf. *See also* Peter Rudegeair, *JPMorgan, Others Plan to Issue Credit Cards to People With No Credit Scores*, Wall St. J. (May 13, 2021), https://www.wsj.com/articles/jpmorgan-others-plan-to-issue-credit-cards-to-people-with-no-credit-scores-11620898206.

[360] Alexei Alexandrov, Alyssa Brown, and Samyak Jain, Looking at credit scores only tells part of the story – cash flow data may tell another part, CFPB Blog (July 26, 2023), https://www.consumerfinance.gov/about-us/blog/credit-scores-only-tells-part-of-the-story-cashflow-data/.

[361] *See* 82 FR 11183, 11186 (Feb. 21, 2017), https://www.federalregister.gov/documents/2017/02/21/2017-03361/request-for-information-regarding-use-of-alternative-data-and-modeling-techniques-in-the-credit.

Innovations in credit scoring, which arise from both credit scoring companies and lenders that develop their own scores, usually take one of two forms. Some innovations rely on the adoption and use of additional datasets. These datasets may include consumers' repayment histories on non-financial products such as rent, telecommunications and utilities, and, as noted above, data from bank accounts.[362] Other innovations involve the use of new modeling techniques, including those characterized as artificial intelligence or machine learning.[363]

In light of these developments in credit scoring, some credit card issuers have adopted new datasets that may expand credit card availability. American Express, which first partnered with Nova Credit in 2019 to translate international credit reports and scores to U.S. equivalents, recently expanded the partnership to cover more immigration corridors to the U.S., which may further expand credit access to a greater number of credit card applicants who are new to the country.[364] Newer credit card issuers such as Tomo Credit and Petal rely on asset and cash flow information from applicants' bank accounts to underwrite consumers that may lack traditional credit history.[365] More banks are also sharing deposit account data with each other in an effort to underwrite credit card applicants who lack traditional credit scores but may be able to demonstrate an ability to repay through their deposit account history with other banks.[366]

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[362] *See* 82 FR 11183, 11185 (Feb. 21, 2017), https://www.federalregister.gov/documents/2017/02/21/2017-03361/request-for-information-regarding-use-of-alternative-data-and-modeling-techniques-in-the-credit.

[363] *See* FinRegLab, *The Use of Machine Learning for Credit Underwriting* (Sept. 2021), 8-12, https://finreglab.org/wp-content/uploads/2021/09/The-Use-of-ML-for-Credit-Underwriting-Market-and-Data-Science-Context_09-16-2021.pdf.

[364] Press Release, Nova Credit and American Express Expand Partnership to Enable Newcomers from South Korea and Switzerland to Apply for Personal American Express Cards using Credit Passport (Feb. 8, 2023), available at https://www.businesswire.com/news/home/20230208005256/en/Nova-Credit-and-American-Express-Expand-Partnership-to-Enable-Newcomers-from-South-Korea-and-Switzerland-to-Apply-for-Personal-American-Express-Cards-using-Credit-Passport%C2%AE. See also Press Release, HSBC and Nova Credit Launch Partnership to Offer Customers Borderless International Credit Checking (Sept. 28, 2022), available at https://www.businesswire.com/news/home/20220928005259/en/HSBC-and-Nova-Credit-Launch-Partnership-to-Offer-Customers-Borderless-International-Credit-Checking.

[365] *See* Talib Visram, *No Credit? You can still get a credit card from this startup*, Fast Company (Feb. 18, 2022), https://www.fastcompany.com/90722599/no-credit-score-you-can-still-get-a-credit-card-from-this-startup; Sam Becker, *FICO scores are flawed. These lenders say they've found a better way to judge your credit*, Fast Company (Feb. 13, 2023), https://www.fastcompany.com/90849536/fico-credit-scores-flawed-alternative-models-financial-startups

[366] *See, e.g.*, David Benoit, *Citigroup Joins Industry Effort to Lend to People Without Credit Scores*, Wall St. J. (September 3, 2022), https://www.wsj.com/articles/citigroup-joins-industry-effort-to-lend-to-people-without-credit-scores-11662174186.

7.3.5 Credit builder cards

In our 2021 Report, we discussed the emergence of new card products offered by fintech companies to help consumers, including thin-file or "credit invisible" borrowers, build or repair credit history. [367] Innovation in this "credit builder card" market continues to appear active and growing. [368]

Newer "credit builder cards" are often promoted as a "safe" or "smart" way to build credit. [369] These products utilize a variety of structures but typically differ from traditional credit-building credit cards by requiring an active link between a consumer deposit account and the offered credit. [370] Bank account connections may be utilized to support underwriting without a credit report as well as the basis for triggering credit account payments in ways that prevent or greatly reduce the risk of consumer delinquency. [371] Companies also frequently include other features in their credit builder products that are intended to aid their customers in managing debt. For example, many do not charge consumers traditional credit card interest or fees and instead

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[367] 2021 Report, *supra* note 3, at 159 to 163.

[368] For example, in addition to various financial technology companies offering credit builder cards directly to consumers, one company recently launched a "banking-as-a-service" product for deploying secured credit builder cards. *See* Bond, *Launch a Credit Builder Card, Fast,* https://www.bond.tech/credit-builder-card (last accessed July 18, 2023). Incumbent card issuers also appear to be responding with new products geared to consumers seeking to establish credit. *See* Chase, Press Release, *Chase Freedom Launches New Credit Card, Freedom Rise*, https://media.chase.com/news/chase-freedom-rise-launches-new-card (last accessed July 18, 2023).

[369] *See, e.g.*, Chime, https://www.chime.com/credit-builder/ ("Start building credit safely") (last accessed July 18, 2023); Tomo, https://tomocredit.com/ ("Build your credit the smart way.") (last accessed July 18, 2023).

[370] "Neobank" companies require consumers to open a deposit account to access their credit builder card offering. *See, e.g.*, Varo, *Varo Believe Credit-Builder Card*, https://www.varomoney.com/credit-builder/ (last accessed July 18, 2023). Others use consumer-permissioned data aggregators to link to the consumer's primary bank account from another provider. *See, e.g.*, Extra, *How does the Extra Card Work?*, https://extra.app/#howextraworks (last accessed July 18, 2023); It is also noteworthy that not all "credit builder cards" are credit cards. While some are issued as secured credit cards, such as the Chime Credit Builder and Varo Believe cards, others are issued as debit cards for transactional use combined with unsecured lines of credit for credit reporting purposes. *See, e.g.*, Extra, *How does the Extra Card Work?*, https://extra.app/#howextraworks (last accessed July 18, 2023).

[371] For example, some companies combine unsecured lines of credit with issuing debit card-like features by automatically paying down card balances on the next business day or every week. *See, e.g.*, StellarFi, *How does it work?,* https://support.stellarfi.com/hc/en-us/articles/4537829672603-How-does-it-work- (last accessed July 18, 2023) (next business day); TomoCredit, *Frequently Asked Questions*, https://tomocredit.com/faq (last accessed July 18, 2023) (weekly). Others require a security deposit, but permit it to be utilized for monthly payments, with corresponding reductions in spending limits. *See, e.g.*, Chime, *How it works*, https://www.chime.com/credit-builder/ (last accessed July 18, 2023).

generate revenue through interchange fees[372] or fixed monthly or annual subscription costs.[373] They also tend to actively promote credit monitoring and financial management tools.[374]

These features provide an attractive mechanism for millions of consumers to enter the credit reporting ecosystem, but these modern credit builder cards differ from other types of credit in fundamental ways. One potential concern is that repayment patterns in credit builder cards may not be as indicative of future likelihood to repay as traditional products. Scoring models may adjust to this difference over time if credit builder cards become more widely used.[375] Relatedly, as companies compete on credit building features, it will be important for them to accurately convey the nuances of these products, such as the potential score improvement benefits and the potential costs of "no interest and fees" pricing structures.

7.4 Credit card competitors

As noted above, our reports have covered two types of innovation affecting the credit card market: those involving traditional credit cards and those arising from adjacent or overlapping consumer financial markets. Many of the innovations covered in previous reports were of the latter kind. In light of this report's focus on competition, we summarize several of these products and services to illustrate how competition and innovation from the broader consumer financial marketplace may prompt changes in traditional products.

Beginning with our 2015 Report, we noted the emergence of new competitors in the consumer lending market that offered alternatives to traditional credit card financing. One such form of competition involved installment loans offered to consumers at the point of sale. The CFPB has more recently studied Buy Now, Pay Later (BNPL) products as an additional mechanism for financing purchases at the point of sale.[376] Other Reports also covered unsecured personal loans from fintech lenders that were marketed as a means of paying off revolving credit card balances or financing large purchases. And more recently, some banks have been exploring the possibility

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[372] *See, e.g.*, TomoCredit, *Frequently Asked Questions*, https://tomocredit.com/faq (last accessed July 18, 2023).

[373] *See, e.g.*, StellarFi, *Pricing*, https://stellarfi.com/pricing (last accessed July 18, 2023). Companies that offer banking services in addition to credit builder cards likely also rely on broader relationship revenue in lieu of card-based revenue.

[374] *See, e.g.*, Credit Sesame, https://www.creditsesame.com/ (last accessed July 18, 2023); StellarFi, https://stellarfi.com/ (last accessed July 18, 2023).

[375] *See, e.g.*, Miriam Cross, *Will new credit building products work as promised?*, American Banker (August 22, 2021) (citing Alex Johnson).

[376] *See* BNPL Report, *supra* note 212.

of bypassing card networks entirely by facilitating payments to merchants directly from consumer bank accounts.

7.4.1 Point-of-sale loans and BNPL

Fixed-interest installment loans offered at the point of sale (POS) provide an alternative to traditional credit card financing.[377] These loans are presented to consumers at a partner merchant's online or physical POS, typically through a branded "pay with" button as a payment option during checkout. These POS loans are generally unsecured, closed-end installment loans, with loan proceeds used to pay the merchant directly once the consumer is approved through a real-time underwriting process. In contrast with the BNPL products discussed below, these loans are usually intended for large, infrequent purchases (*e.g.*, furniture and high-priced exercise equipment), carry interest, and can have terms of up to three or four years. Down payments are typically not required.

Distinguishable from conventional POS loans are BNPL products, which are also discussed in Section 6.2 above. BNPL generally refers to a "pay-in-four" product, *i.e.*, a four-installment, no-interest consumer loan made at the POS, typically with a down payment of 25 percent and the remaining three installments due in two-week intervals.[378] From 2019 to 2021, the number of BNPL products originated in the U.S. by five lenders surveyed by the CFPB grew by 970 percent, from 16.8 to 180 million, while the dollar volume of those originations grew by 1,092 percent, from $2 billion to $24.2 billion.[379]

Both POS loans and BNPL products target consumers who might otherwise choose to add certain purchases to their revolving credit card balance. Other similarities between traditional credit cards, non-card POS loans, and BNPL products include: a product that merges payments and credit, a business model that includes transaction fees charged to merchants, and a focus on retail purchases. Some lenders offering BNPL and POS loans also now have mobile apps that allow consumers to purchase goods from virtually any retailer – expanding their use case beyond just those retailers that have agreed to present the lender as an option at checkout.

In a possible reaction to new POS financing options, including growth in BNPL, numerous traditional credit card issuers have sought to offer their own "fixed-payment" features for

[377] *See* Diana Goldshtein and Udai Kaura, *US lending at point of sale: The next frontier of growth*, McKinsey & Company (Nov. 4, 2019), https://www.mckinsey.com/industries/financial-services/our-insights/banking-matters/us-lending-at-point-of-sale-the-next-frontier-of-growth. *See also* 2019 Report, *supra* note 3, at 176 to 177.

[378] CFPB BNPL Report, *supra* note 212, at 6.

[379] *Id.*

individual purchases made on credit cards. As discussed in Section 6.2 above, these features allow customers to convert larger purchases made on their cards into closed-end installment loans, similar to those offered by POS lenders. This may offer consumers greater flexibility and control in paying down different purchases at different costs and speeds, along with more certainty regarding the total cost of specific purchases. At the same time, since these installment plans are offered in connection with credit card accounts, certain provisions from the CARD Act and Regulation Z – particularly around limits to repricing -- may present barriers to issuers seeking to offer these optional plans.

7.4.2 Fintech personal loans

Another product that poses competition to traditional issuers includes personal loans offered by fintech or other online lenders. While unsecured personal loans are hardly new, their origination through online or fintech channels has grown substantially over time. Between 2017 and 2022, fintech lenders nearly doubled their share of personal loan originations to almost 40 percent.[380] This growth has led to an increase in competition for revolving credit card balances. Personal lenders advertise their products as a way to consolidate credit card debt at interest rates lower than those applied to revolving balances. These lenders also target borrowers seeking to finance large expenditures that might otherwise be added to credit card balances. As a result, increasing personal loan volume tends to reduce interest and fee revenue – including fees from balance transfers – that would have been earned by traditional card issuers over time.

As online lenders grew in market share, traditional credit card issuers invested more heavily in new products or features that might appeal to customers seeking fintech personal loans. Today, several major credit card issuers have branded personal loan products, including offerings from American Express,[381] Discover,[382] U.S. Bank,[383] and Wells Fargo.[384] Like the products offered by

[380] Eldar Beisatov, *The Role of Fintech in Unsecured Consumer Lending to Low- and Moderate-Income Individuals*, 2, *available at* https://www.newyorkfed.org/medialibrary/media/newsevents/events/regional_outreach/2022/092922/2022-09-29-eldar-beiseitov-fintech-personal-loans-ny-fed.

[381] American Express, *Get the funds you need with American Express Personal Loans*, https://www.americanexpress.com/us/loans/personal-loans/ last accessed Mar. 14, 2023).

[382] Discover, *Discover Personal Loans*, https://www.discover.com/personal-loans/ (last accessed Mar. 14, 2023).

[383] U.S. Bank, Personal Loan, https://www.usbank.com/loans-credit-lines/personal-loans-and-lines-of-credit/personal-loan.html (last accessed Mar. 14, 2023).

[384] Wells Fargo, Personal Loan Rates, https://www.wellsfargo.com/personal-loans/rates/ (last accessed Mar. 14, 2023).

fintech lenders, these personal loans are advertised as a way to consolidate credit card debt, fund home improvement projects, or pay for large expenditures like weddings and travel.

7.4.3 "Pay-by-bank"

Peer-to-peer mobile applications such as PayPal, Venmo, and Zelle already provide bank accountholders the ability to pay each other nearly instantly. Because peer-to-peer payments often use the Automated Clearance House (ACH) bank payment network and other non-credit card payment networks,[385] parties to peer-to-peer transactions typically do not bear the cost of interchange fees that come with credit card payments. Despite the lower cost of these peer-to-peer payments, however, their use for retail payments to merchants remains limited.

Recent reports in the media indicate that some banks may be seeking ways to facilitate more retail payments to merchants directly from customer bank accounts, without using debit or credit card payment rails.[386] These "pay-by-bank" initiatives may be boosted by the Federal Reserve's launch of FedNow, a bank-to-bank payments service that will be faster than the ACH network.[387] To the extent pay-by-bank captures a share of retail payments, credit card issuers will be deprived of corresponding interchange fees and revolving balances. However, while a pay-by-bank service may lower costs for some parties, including merchants paying less in processing fees, customers may lose out on rewards and certain fraud protections. The CFPB will closely monitor new retail payment mechanisms for the benefits and risks they present to consumers.

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[385] *See* Michael Moser, *How The Clearing House is paving Zelle's path to the point of sale*, American Banker (Sept. 25, 2019), https://www.americanbanker.com/payments/news/how-the-clearing-house-is-paving-zelles-path-to-the-point-of-sale.

[386] See Joshua Franklin, *How JPMorgan's plan to kill credit cards split the bank,* Financial Times (Sept. 23, 2022), https://www.ft.com/content/f6d8d454-2413-4f2b-945d-825d0a68730b.

[387] *See* John Adams, *How do real-time payments work?*, American Banker (Feb. 17, 2023), https://www.americanbanker.com/payments/news/how-do-real-time-payments-work. *See also* Board of Governors of the Federal Reserve System, *Federal Reserve announces July launch for the FedNow Service* (Mar. 15, 2023), https://www.federalreserve.gov/newsevents/pressreleases/other20230315a.htm.