CONSUMER FINANCIAL PROTECTION BUREAU | FEBRUARY 2023

# Credit Card Late Fees: Revenue and Collection Costs at Large Bank Holding Companies

Consumer Financial Protection Bureau

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# 1. Introduction

This report documents findings on the relationship between late fee revenue and pre-charge-off collection costs for certain large credit card issuers for purposes of the Bureau's 2023 Notice of Proposed Rulemaking related to late fees (2023 NPRM). The findings are based on the Y-14M (Y-14) data, which, as discussed below, are collected by the Board of Governors of the Federal Reserve System (Board) from bank holding companies with total consolidated assets exceeding $50 billion. The report shows that revenue from late fees has consistently far exceeded pre-charge-off collection costs over the last several years.

### METHODOLOGY

Since June 2012, the Board has collected these data monthly from bank holding companies with total consolidated assets exceeding $50 billion. For this collection, surveyed financial institutions report comprehensive data on their assets on the last business day of each calendar month. These data are used to support the Board's supervisory stress test models and provide one source of data for the Bureau's biennial report to Congress on the consumer credit card market. [1]

In particular, the findings below are based on the following metrics:

1. Late Fee Income: Reported net fee income assessed for late or nonpayment accounts in a given domestic credit card portfolio by card type (e.g., general purpose or private label). This is late fee income for the Bureau's purposes, as discussed in the section-by-section analysis of § 1026.52(b)(1)(ii) in the Bureau's 2023 NPRM.

2. Collection Costs: Reported costs incurred to collect problem credits that include the total collection cost of delinquent, recovery, and bankrupt accounts. Issuers report these aggregate costs monthly for their domestic credit card portfolios and separately by credit card type. [2] These reported costs do not include losses and associated costs. [3]

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[1] *See* Bd. of Governors. of the Fed. Rsrv. Sys., Report Forms FR Y-14M, https://www.federalreserve.gov/apps/reportforms/reportdetail.aspx?sOoYJ+5BzDYnbIw+U9pka3sMtCMopzoV (for more information on the Y-14M collection). The Bureau is one of several government agencies with whom the Board shares the data. Information in the Y-14 data do not include any personal identifiers. Additionally, accounts associated with the same consumer are not linked across or within issuers. The Y-14 data also does not include transaction-level data pertaining to consumer purchases.

[2] Types include General Purpose, Private Label, Business, and Corporate cards.

[3] Issuers report projected losses, the dollar amount of charge-offs and any associated recoveries, interest expense, and loan loss provisions separately.

The Y-14 data received by the Bureau cover the period from the middle of 2012 through September 2022 and are provided by issuers that accounted for just under 70 percent of outstanding balances on U.S. consumer credit cards as of year-end 2020. For the purposes of the findings below, the Bureau only considered portfolio-level data for issuers in a given month for consumer general purpose and private label credit cards for which there existed data on late fee income and collection costs in the Y-14 data.

# 2. Pre-Charge-Off Collection Costs

Collection costs in the Y-14 data include both pre-charge-off and post-charge-off collection costs. As discussed in the Bureau's 2023 NPRM, the Bureau proposes to amend comment 52(b)(1)(i)-2.i to clarify that costs for purposes of the cost analysis provisions in § 1026.52(b)(1)(i) for determining penalty fee amounts do not include any collection costs that are incurred after an account is charged off pursuant to loan loss provisions.

Consistent with that proposed clarification, the Bureau estimated the percentage of collection costs that may occur after charge-off so that they could be excluded from the collection costs in the Y-14 data. The Bureau notes that the most significant post-charge-off collection costs are likely to be commissions paid to third-party debt collectors for charged-off accounts. The Bureau understands that such commission payments, made to third-party debt collection companies, would be made almost exclusively in connection with accounts that have been charged off, and represent a conservative estimate of post-charge-off collection costs, as there may be other costs associated with collections post-charge-off beyond such commission payments.

The Bureau estimated from debt collection reports the commission expenses that six major card issuers paid in 2019 and 2020, representing 91 percent of balances and 93 percent of collection costs among portfolios with positive collection expenses reported in the Y-14 data in the twelve months leading up to August 2022.[4] The methodology for estimating post-charge-off commissions considered the amount of charged-off balances and then estimated the commission on the volume of recovered balances by using the recovery and commission rates.[5]

[4] As part of its review of the practices of credit card issuers for its biennial review of the consumer credit card market, the Bureau surveys several large issuers to better understand practices and trends in credit card debt collection. These data provided in response to data filing orders served as the basis of this calculation. For more information on these data, *see* Bureau of Consumer Fin. Prot., *The Consumer Credit Card Market*, at 17 (Sept. 2021), https://files.consumerfinance.gov/f/documents/cfpb_consumer-credit-card-market-report_2021.pdf.

[5] For example, if an issuer had a total of $1 million in newly charged-off balances in a given year, a cumulative recovery rate for that year of five percent, and a post-charge-off commission rate of 20 percent, the Bureau would estimate the post-charge-off commission costs to be $10,000. To calculate the post-charge-off collection costs as a share of total cost of collections, the Bureau then divided the estimated post-charge-off commission costs by the total collection costs the bank reported in the Y-14 data. For issuers who sell debt, the cost of collections calculation uses charge-off balances net of asset sales. The commission rate for each issuer is an average weighted by the share of post-charge-off balances in each tier placement (*e.g.*, primary, secondary, and tertiary placements).

Based on the commission expenses that these six major card issuers paid in 2019 and 2020 to third-party debt collectors for charged off accounts, the Bureau estimated that these post-charge-off costs are around 25 percent of total collection costs for these issuers; the average ratio was 27 percent in 2019 and 21 percent in 2020. In 2019, the median ratio of estimated post-charge-off commission costs to annual collection costs in the Y-14 for individual issuers was 28 percent; in 2020, it was 23 percent. Based on this data, the Bureau estimated that pre-charge-off collection costs were equal to 75 percent of the collection costs included in the Y-14 data (so called "estimated pre-charge-off collection costs") for purposes of its analysis related to the proposed changes to the safe harbor thresholds for late fees in § 1026.52(b)(1)(ii).

# 3. Late Fee Revenue and Collection Costs

Table 1 shows the monthly values for the aggregate late fee revenue and collection costs for general purpose and private label credit cards in the Y-14 data since 2016. Since not every issuer in the data reports values for every month, Table 1 also reports the number of portfolios that are included in the aggregate for the applicable month. It also shows the total number of accounts in these portfolios, aggregate interest revenue for these accounts, the Bureau's estimate of pre-charge-off collection costs, total account balances, and the weighted ratio of late fee income to estimated pre-charge-off collection costs (calculated as discussed below).

**TABLE 1:** MONTHLY LATE FEE REVENUE AND COLLECTION COSTS

| MONTH | WEIGHTED MARKET AVERAGE RATIO | TOTAL ACCOUNTS (MN) | TOTAL LATE FEE INCOME ($ MN) | TOTAL COLLECTION COSTS ($ MN) | ESTIMATED PRE-CHARGE-OFF COLLECTION COSTS ($ MN) | TOTAL INTEREST REVENUE ($ MN) | TOTAL ACCOUNT BALANCES ($ MN) | PORTFOLIO NUMBER |
|---|---|---|---|---|---|---|---|---|
| 1/1/2016 | 8.0 | 419 | 482 | 110 | 82 | 5,341 | 557,840 | 21 |
| 2/1/2016 | 7.2 | 419 | 426 | 115 | 86 | 4,929 | 546,287 | 21 |
| 3/1/2016 | 6.5 | 420 | 395 | 124 | 93 | 5,206 | 545,371 | 21 |
| 4/1/2016 | 6.6 | 421 | 403 | 111 | 83 | 4,981 | 549,780 | 21 |
| 5/1/2016 | 7.0 | 423 | 432 | 114 | 86 | 5,170 | 558,089 | 21 |
| 6/1/2016 | 6.9 | 428 | 433 | 111 | 83 | 5,099 | 572,747 | 21 |
| 7/1/2016 | 7.6 | 427 | 473 | 106 | 79 | 5,344 | 579,558 | 21 |
| 8/1/2016 | 7.1 | 428 | 462 | 118 | 88 | 5,420 | 586,763 | 21 |
| 9/1/2016 | 7.6 | 430 | 492 | 111 | 84 | 5,220 | 585,395 | 21 |
| 10/1/2016 | 7.8 | 430 | 496 | 110 | 83 | 5,507 | 589,535 | 21 |
| 11/1/2016 | 7.4 | 431 | 475 | 111 | 84 | 5,359 | 602,456 | 21 |
| 12/1/2016 | 7.5 | 448 | 514 | 119 | 89 | 5,899 | 647,901 | 21 |
| 1/1/2017 | 8.7 | 448 | 538 | 118 | 88 | 6,036 | 634,033 | 22 |
| 2/1/2017 | 7.7 | 449 | 488 | 116 | 87 | 5,445 | 620,503 | 22 |
| 3/1/2017 | 6.8 | 450 | 452 | 135 | 101 | 5,957 | 615,914 | 22 |
| 4/1/2017 | 6.9 | 451 | 451 | 115 | 86 | 5,727 | 623,398 | 21 |
| 5/1/2017 | 6.8 | 451 | 468 | 132 | 99 | 5,947 | 631,475 | 21 |
| 6/1/2017 | 6.6 | 450 | 492 | 127 | 95 | 5,882 | 633,760 | 20 |
| 7/1/2017 | 6.8 | 451 | 530 | 122 | 91 | 6,239 | 640,401 | 21 |
| 8/1/2017 | 6.9 | 452 | 510 | 129 | 97 | 6,302 | 646,116 | 21 |
| 9/1/2017 | 6.8 | 455 | 504 | 126 | 95 | 6,100 | 649,702 | 21 |
| 10/1/2017 | 6.5 | 455 | 512 | 137 | 102 | 6,379 | 653,117 | 20 |
| 11/1/2017 | 6.5 | 457 | 490 | 141 | 106 | 6,218 | 670,082 | 21 |
| 12/1/2017 | 7.2 | 459 | 536 | 145 | 109 | 6,560 | 688,496 | 21 |
| 1/1/2018 | 7.4 | 435 | 517 | 140 | 105 | 6,152 | 619,757 | 20 |

| MONTH | WEIGHTED MARKET AVERAGE RATIO | TOTAL ACCOUNTS (MN) | TOTAL LATE FEE INCOME ($ MN) | TOTAL COLLECTION COSTS ($ MN) | ESTIMATED PRE-CHARGE-OFF COLLECTION COSTS ($ MN) | TOTAL INTEREST REVENUE ($ MN) | TOTAL ACCOUNT BALANCES ($ MN) | PORTFOLIO NUMBER |
|---|---|---|---|---|---|---|---|---|
| 2/1/2018 | 6.9 | 430 | 475 | 136 | 102 | 5,562 | 605,846 | 20 |
| 3/1/2018 | 6.0 | 431 | 444 | 145 | 109 | 6,033 | 600,015 | 20 |
| 4/1/2018 | 6.1 | 431 | 424 | 136 | 102 | 5,816 | 605,453 | 20 |
| 5/1/2018 | 6.5 | 432 | 447 | 145 | 108 | 6,008 | 613,092 | 20 |
| 6/1/2018 | 6.9 | 432 | 466 | 132 | 99 | 6,011 | 614,680 | 19 |
| 7/1/2018 | 7.3 | 433 | 494 | 139 | 105 | 6,262 | 619,031 | 19 |
| 8/1/2018 | 7.5 | 434 | 491 | 146 | 110 | 6,378 | 622,837 | 19 |
| 9/1/2018 | 8.0 | 434 | 520 | 130 | 98 | 6,241 | 620,912 | 19 |
| 10/1/2018 | 7.4 | 434 | 509 | 141 | 106 | 6,500 | 624,805 | 19 |
| 11/1/2018 | 7.3 | 436 | 507 | 136 | 102 | 6,355 | 638,676 | 19 |
| 12/1/2018 | 7.3 | 437 | 518 | 139 | 104 | 6,659 | 653,770 | 19 |
| 1/1/2019 | 5.4 | 434 | 488 | 146 | 109 | 6,863 | 638,599 | 19 |
| 2/1/2019 | 7.8 | 434 | 490 | 146 | 109 | 6,138 | 624,841 | 19 |
| 3/1/2019 | 5.5 | 435 | 444 | 150 | 112 | 6,625 | 621,020 | 19 |
| 4/1/2019 | 5.1 | 435 | 425 | 142 | 107 | 6,356 | 628,110 | 18 |
| 5/1/2019 | 5.2 | 430 | 460 | 148 | 111 | 6,624 | 633,726 | 18 |
| 6/1/2019 | 5.5 | 431 | 484 | 140 | 105 | 6,531 | 636,557 | 18 |
| 7/1/2019 | 5.0 | 431 | 504 | 153 | 114 | 6,758 | 642,089 | 18 |
| 8/1/2019 | 4.8 | 431 | 491 | 143 | 108 | 6,796 | 646,194 | 18 |
| 9/1/2019 | 5.0 | 432 | 524 | 152 | 114 | 6,515 | 645,581 | 18 |
| 10/1/2019 | 5.0 | 439 | 512 | 163 | 123 | 6,773 | 655,552 | 18 |
| 11/1/2019 | 4.9 | 440 | 502 | 153 | 115 | 6,549 | 663,956 | 18 |
| 12/1/2019 | 5.3 | 441 | 518 | 156 | 117 | 6,823 | 686,016 | 17 |
| 1/1/2020 | 5.3 | 441 | 513 | 160 | 120 | 6,965 | 667,869 | 17 |
| 2/1/2020 | 5.0 | 439 | 486 | 156 | 117 | 6,360 | 655,057 | 17 |
| 3/1/2020 | 4.6 | 434 | 463 | 164 | 123 | 6,397 | 634,236 | 17 |
| 4/1/2020 | 4.2 | 432 | 413 | 143 | 107 | 5,825 | 595,677 | 17 |
| 5/1/2020 | 3.3 | 429 | 325 | 150 | 112 | 5,793 | 588,031 | 17 |
| 6/1/2020 | 4.1 | 489 | 462 | 172 | 129 | 6,029 | 661,763 | 19 |
| 7/1/2020 | 4.4 | 478 | 491 | 181 | 135 | 6,335 | 654,603 | 19 |
| 8/1/2020 | 4.7 | 477 | 517 | 168 | 126 | 6,316 | 654,311 | 19 |
| 9/1/2020 | 4.8 | 476 | 541 | 176 | 132 | 6,033 | 649,387 | 19 |
| 10/1/2020 | 5.0 | 476 | 570 | 166 | 124 | 6,228 | 646,886 | 19 |
| 11/1/2020 | 5.4 | 477 | 595 | 162 | 121 | 6,171 | 656,513 | 19 |
| 12/1/2020 | 5.7 | 477 | 634 | 177 | 132 | 6,448 | 666,585 | 19 |
| 1/1/2021 | 5.4 | 477 | 601 | 170 | 128 | 6,328 | 636,560 | 19 |
| 2/1/2021 | 3.7 | 473 | 531 | 165 | 124 | 5,634 | 622,386 | 19 |
| 3/1/2021 | 3.4 | 474 | 470 | 190 | 142 | 5,987 | 616,652 | 19 |
| 4/1/2021 | 3.4 | 474 | 462 | 175 | 131 | 5,715 | 616,621 | 19 |
| 5/1/2021 | 3.9 | 476 | 512 | 164 | 123 | 5,907 | 632,928 | 19 |
| 6/1/2021 | 4.4 | 413 | 372 | 155 | 116 | 5,194 | 566,036 | 16 |
| 7/1/2021 | 4.9 | 414 | 412 | 152 | 114 | 5,460 | 570,117 | 16 |
| 8/1/2021 | 5.0 | 416 | 412 | 146 | 110 | 5,532 | 576,436 | 16 |
| 9/1/2021 | 5.4 | 418 | 438 | 142 | 106 | 5,428 | 576,754 | 16 |

| MONTH | WEIGHTED MARKET AVERAGE RATIO | TOTAL ACCOUNTS (MN) | TOTAL LATE FEE INCOME ($ MN) | TOTAL COLLECTION COSTS ($ MN) | ESTIMATED PRE-CHARGE-OFF COLLECTION COSTS ($ MN) | TOTAL INTEREST REVENUE ($ MN) | TOTAL ACCOUNT BALANCES ($ MN) | PORTFOLIO NUMBER |
|---|---|---|---|---|---|---|---|---|
| 10/1/2021 | 5.5 | 419 | 456 | 142 | 107 | 5,640 | 585,577 | 16 |
| 11/1/2021 | 5.4 | 420 | 444 | 135 | 102 | 5,511 | 607,349 | 16 |
| 12/1/2021 | 5.7 | 423 | 471 | 134 | 101 | 5,807 | 619,332 | 16 |
| 1/1/2022 | 6.1 | 424 | 497 | 137 | 102 | 5,911 | 604,275 | 16 |
| 2/1/2022 | 5.7 | 422 | 468 | 126 | 94 | 5,306 | 597,309 | 16 |
| 3/1/2022 | 5.2 | 424 | 439 | 140 | 105 | 5,844 | 606,454 | 16 |
| 4/1/2022 | -- | 425 | 444 | 133 | 100 | 5,645 | 617,346 | 16 |
| 5/1/2022 | -- | 426 | 470 | 127 | 95 | 6,147 | 635,142 | 16 |
| 6/1/2022 | -- | 433 | 486 | 139 | 104 | 6,248 | 650,238 | 16 |
| 7/1/2022 | -- | 435 | 541 | 127 | 95 | 6,789 | 660,006 | 16 |
| 8/1/2022 | -- | 438 | 533 | 137 | 102 | 7,098 | 672,281 | 16 |
| 9/1/2022 | -- | 440 | 577 | 130 | 98 | 7,155 | 674,413 | 16 |

Based on these aggregate data, the Bureau calculated the ratio of late fee revenue to collection costs over time. In doing so, the Bureau also considered that there may be a delay between when a late fee was assessed and when the issuer incurs substantial collection costs associated with the account. For these reasons, the Bureau compared each month's late fee income for a particular portfolio to the portfolio's average estimated pre-charge-off collection costs for payments that were missed during that month, where that estimate was based on estimated pre-charge-off collection costs that occurred two through six months later.[6]

The Bureau developed monthly estimates of this late fee income-to-cost ratio for each year from 2013 up to early 2022. The analysis showed that an average of this ratio across issuers and market segments, weighted by the number of accounts reported in the Y-14 data, has been fairly stable since early 2019 (and was higher before 2019). As shown in Figure 1, late fee income has always been higher than three times subsequent estimated pre-charge-off collection costs, and more than four times as high in all but five pandemic months (May 2020 and February-May 2021, coinciding with pandemic stimulus payments, when there was a reduction in late fee income without a corresponding decline in average collection costs in subsequent months).

[6] For example, if an issuer were to report late fee income of $15 million in January for a portfolio and total collection costs for that portfolio of $20 million in March through July, the Bureau estimated $15 million in pre-charge-off collection costs in March through July and calculated an average monthly collection cost of $3 million for purposes of this analysis—resulting in a ratio of late fee income of $15 million to collection cost of $3 million for this portfolio for the month of January. The Bureau found that its preliminary findings based on the weighted average of this ratio across issuers and market segments as discussed in the section-by-section analysis of § 1026.52(b)(1)(ii) in the Bureau's 2023 NPRM are robust to shifting, expanding, or shortening the time period of delay in collection costs as they relate to late fee income.

Since August 2021, late fee income has exceeded the relevant estimated pre-charge-off costs more than fivefold, which resembles the period before the pandemic.

**FIGURE 1:** RATIO OF LATE FEE INCOME TO FUTURE COLLECTION COST (Y-14)