Facts Matter

A four-part blog series to counter misinformation conveyed by the CFPB in recent CARD Act Report.

PART ONE

CBA Uses CFPB Data to Set Record Straight on CARD Act Report

In passing the sweeping reforms of the credit card market under the 2009 Credit Card Accountability Responsibility and Disclosure ("CARD") Act, Congress required that the Consumer Financial Protection Bureau (CFPB) publish a review of the state of the credit card market every two years. This year's Consumer Credit Card Market Report ("CARD Act Report") published late last month, was accompanied by a CFPB press release full of headlines distressingly removed from and even contradicted by the Report itself.

Facts matter when policymakers write regulations. Since the beginning of the Biden Administration, the CFPB has pushed forward major, industry-reshaping policy changes around a policy thesis that there's a lack of competition for consumer financial products and services. As the CARD Act Report's data show, this is not an accurate portrayal of the market.

To highlight these numerous contradictions and inconsistencies, the Consumer Bankers Association (CBA) is producing a four-part series to contrast the CFPB's CARD Act Report press release against reality, primarily using the data from the CFPB's own research.

The CARD Act Report clearly shows a competitive credit card market.

In its press release, the CFPB (incorrectly) asserts: "Major credit card companies' profits are now higher than pre-pandemic levels, potentially signaling a lack of competition in a market consistently dominated by the top 10 credit card companies."

This CFPB's claim misrepresents the Bureaus' own data in several important ways:

The CARD Act Report clearly shows that the top 10 credit card companies compete with smaller banks for market share.

The CARD Act Report flatly states that market shares of the top 10 credit card issuers declined by four percent from 2016 to 2022, contrary to the stark language of the CFPB's press release about "a market consistently dominated by the top 10 credit card companies," According to the CARD Act Report, market share for the next 20 issuers grew by the same percentage in that time frame.

The CARD Act Report shows that credit card issuers compete vigorously and innovate creatively to win new customers.

The CARD Act Report highlights that, "[i]n 2022, credit card marketing efforts were at their highest since at least 2015." The October CARD Act Report cuts its analysis off at 2015. But, if you look to data from the 2013 CARD Act Report, it's clear that credit card marketing efforts are actually at their highest levels since the CARD Act was enacted in 2009.

- As the October Card Act Report explains, "Monthly mail volume reached 610.6 million items in September 2022 after the recent trough of 61.7 million in July 2020." That means that mail marketing for credit cards has exploded to ten times its volume in the last two years. Said another way, in one month alone, credit card issuers mailed more than two applications for credit cards for every single adult in America.

The CARD Act Report also explains how credit card companies develop new technologies to better reach new consumers. For instance, the Report explains that "[t]hird-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."

- Even at these recently-reduced levels, a fifth of credit card applications come in via these digital third-party sites, meaning that consumers are shown a range of different credit cards for which they are likely qualified before they choose. This is particularly helpful for subprime and credit invisible consumers, as evidenced by their higher usage of these third-party comparison sites for their applications.

The CARD Act Report describes recent advances by card issuers related to soft credit inquiries that increase competition by allowing consumers to compare multiple credit card offers, without impacting their credit score. As the CARD Act Report explains, soft underwriting can materially benefit consumers' financial well-being by encouraging borrowers to compare cards they are likely to be qualified for without fear of their credit score being harmed by the multiple hard inquiries.

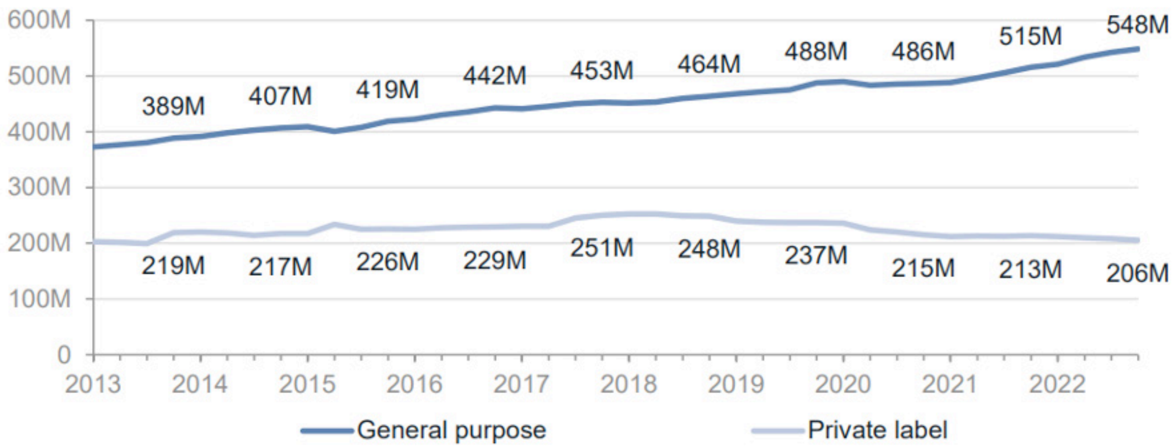
- This is just one example of the many innovations card issuers are developing to compete for consumer relationships. As the CARD Act Report notes, card issuers are introducing a wide range of new technologies and product offerings so they can offer more sophisticated underwriting and new form factors like digital wallets and different payment structures that compete with non-banks and other forms of credit and payment tools, like buy-now-pay-later products and "credit builder" loans.

The CARD Act Report shows that even after they've "won" a consumer, credit card issuers must compete voraciously to keep their consumers' business.

For all of the data in the 2023 CARD Act Report's 175 pages and nearly 400 footnotes, the October report has a curious omission – this year, the CFPB doesn't state how many credit cards the average cardholder has.

- In the 2021 CARD Act Report, released under Acting Director David Uejio, the CFPB noted that the average cardholder carried 3 credit cards in 2020. We assume that this number has gotten larger, because the CFPB provides the quarterly number of open credit accounts in the October Report (See Figure 1, below). The data shows a steady climb in open credit accounts that looks to at least match, if not outpace, population growth in that same time period.

FIGURE 1 | Quarterly Number of Open Credit Card Accounts (CFPB)



Even after a credit card company has won a consumer's business as a cardholder, it still must compete against two or three credit cards each and every time the consumer uses a credit card to make a purchase. As the October CARD Act Report explains:

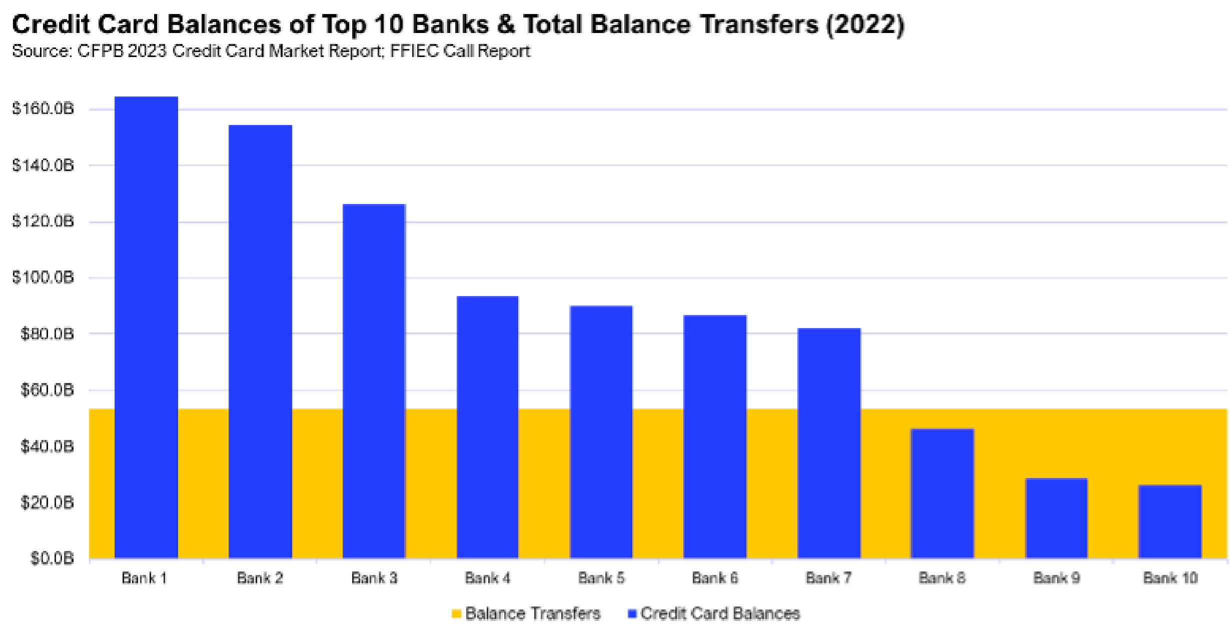
> *"Since consumers often carry more than one credit card, credit card issuers compete to acquire and retain "top of wallet" status as consumers' primary method of payment. Issuers must refresh product offerings and provide new benefits regularly to ensure cardholders reach for their product first at 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 consumer spending."*

Of all the data points in the October Report, one particular number shows how fierce the competition amongst card issues can be: the CFPB finds that there were $53 billion in balance transfers in 2022. As the CFPB explains, "[b]alance transfer offers enable consumers to potentially reduce the cost of credit card debt." That's because "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."

- The CFPB explains how the balance transfer competition and math benefits consumers using a hypothetical: "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 zero percent 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."

$53 billion dollars means a lot of credit card loans are moving from one credit card issuer to another. To put that number in context, we've created a graph that shows the total credit card balances for the top ten credit card issuers in 2022 and layered that over the $53 billion mark. (See Figure 2, below.) The amount of balance transfers that moved from one issuer to another is greater than the total holdings of each but the top seven credit card issuers.

FIGURE 2 | Credit Card Balances & Total Balance Transfers



Facts matter because they help us understand what policy choices are appropriate.

Since the beginning of the Biden Administration, the CFPB has pushed forward major, industry-reshaping policy changes around a policy thesis that there's a lack of competition for consumer financial products and services.

- For instance, when announcing the CFPB's proposed rule to lower the Federal Reserve Board's safe harbor for credit card late fees, CFPB Director Chopra argued that late fees and, by extension credit cards, "aren't subject to the normal forces of competition." According to the Director, competition had been "undermined," so the CFPB needed to intervene to ensure the credit card market is fair and competitive."

- Likewise, in justifying the CFPB's sweeping open banking regulations, relying on its Dodd Frank Act Section 1033 authorities, Director Chopra paints a picture of ushering in a new "competitive market [which] would also lead to unbundling where companies compete on individual products, rather than relying on captive customers or cross-selling scams."

As described above, the CFPB's own research shows that the CFPB is simply wrong in how it justifies its rulemakings.

Even a cursory handful of internet searches quickly reveals that the CFPB's framing of competition across the financial services industry just isn't accurate. The CFPB says that we need open banking so that consumers can have more access to fintech. But according to a leading data aggregator, "fintech has reached mass adoption," with 88 percent of U.S. consumers using fintechs.

- As the data aggregator points out, that is a higher adoption rate than video streaming subscriptions and social media. Similarly, competition in the checking account industry is fierce. According to Cornerstone Research, 14 percent of consumers had opened new checking accounts by the summer of this year. That rate grows higher each year (15 percent for the full year of 2022; 12 percent in 2021; 10 percent in 2020). Further, nearly half (47 percent) of new accounts in 2023 were digital banks or fintechs.

The CFPB's Late Fee and Open Banking proposals are enormously destabilizing for card issuers and will generate new costs for consumers. Just with open banking alone, the CFPB is requiring banks of all sizes to create application programming interfaces for third parties with no real limits and with no ability to recoup costs — while still holding liability for any fraudulent and erroneous transactions that result from stolen credentials. But more importantly, responsible consumers will ultimately be left with higher costs.

- As an example, the CFPB estimates that its Late Fee rulemaking will benefit a minority of frequent late payers, but could cause APRs to rise for all cardholders as much as two percent. That means that cardholders that pay on time – which includes 50 percent of subprime cardholders that are working to build their credit histories – will have a harder time making ends meet, presumably because of the CFPB's false narrative about a lack of competition in the credit card market.

Likewise, the CFPB's open banking proposal leaves an important scenario unaddressed, where consumers could be left on the hook for fraudulent or erroneous transactions caused when their delegated third parties exceed their authority.

CBA, on behalf of our members, will continue to work with the CFPB to find the right answers, with the shared goal of improving consumers' financial well-being over the long term. As we embark on that process, to paraphrase the late Senator Daniel Patrick Moynihan (D-N.Y.), it's incredibly important that the CFPB understands that it can have its own opinion about policy, but it can't have its own facts.

PART TWO

CARD Act Report Reveals Credit Card Fee Landscape In Stark Contrast To CFPB's Misleading Headlines

The second installment of CBA's "Facts Matter" blog series explains how the CFPB's public statements can mislead market observers by painting an inaccurate picture of the credit card marketplace. As CBA illustrates below, the CFPB's CARD Act Report actually appears to show a different, richer, story about credit card fees, in which:

- **Late fees have not meaningfully increased as a proportion of credit card balances for the last several years** (excluding the pandemic years, during which consumers received a variety of public and private stimulus benefits that brought down both credit card spending and late payments);
- **To the extent that overall fees have grown in proportion to balances, it appears to be attributable to two factors**: an increase in credit card availability for subprime and deep subprime cardholders and growth in credit card annual fees; and
- **Most of the growth in annual fees is paid by prime and super-prime consumers.** In fact, annual fee prevalence has actually decreased in recent years for subprime and deep subprime consumers.

To put it plainly: Late fees appear to have grown only in proportion to the increase in credit card balances, especially as issuers provide greater access to credit cards for consumers with lower credit scores or little-to-no credit history. Issuers have reduced annual fees charged to these consumers and instead charged higher annual fees to the highest-scored consumers.

Despite these broader changes, press releases and statements by the current CFPB have consistently repeated the theme that credit card late fees are not "fair and competitive." And the CFPB regularly talks in terms of rising late fees. For instance, CFPB Director Rohit Chopra has asserted that once credit card issuers "discovered that these fees could be a source of easy profits, late fees shot up, with a surge occurring in the 2000s."

One of the CFPB's big headlines from its October press release was that: "Credit card companies charged borrowers the highest amount of interest and fees ever measured by the CFPB's data." The CFPB often uses this broad statement as support for an assertion about the growth of a specific type of credit card fee: late fees. When the CFPB does this, though, a casual reader can easily miss that the "thing" that has grown isn't late fees, but rather a mix of things.

- First, the numbers used by the CFPB include not just late fees, but all credit card fees.
- Second, the mix also includes interest expenses. Given the Federal Reserve's historic series of interest rate hikes in its near two-year fight against inflation, it shouldn't be surprising that a group of factors that includes interest has grown enormously.
- Third, balances have grown, meaning interest and fees charged have grown proportionately.

The CFPB's rhetoric and spin with numbers can mislead readers to think that credit card late fees are dramatically rising – but that misrepresents the true story.

Earlier this month, The Washington Post published an article provocatively titled, "From airlines to ticket sellers, companies fight U.S. [sic] to keep junk fees." The Post article is a great example of how the CFPB's grouping of factors when talking about late fees can mislead even sophisticated stakeholders.

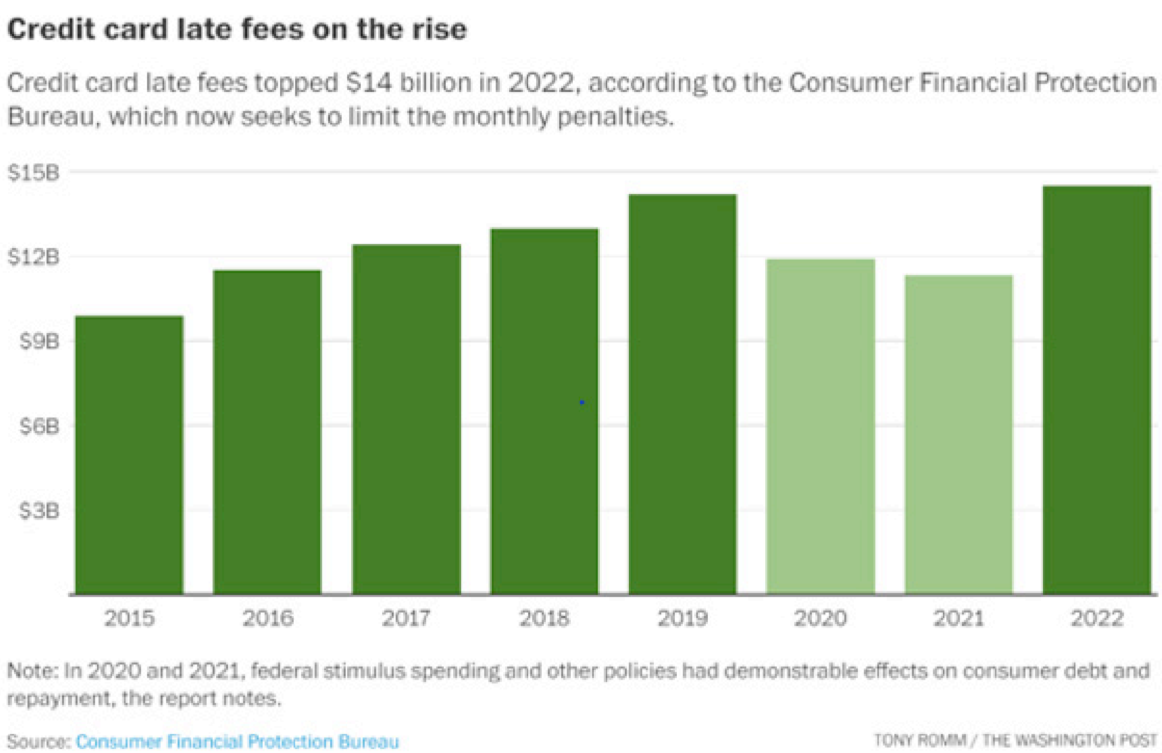
In describing the CFPB's recent push to lower credit card late fees, The Post says:

> *"A similar backlash has greeted the Consumer Financial Protection Bureau over its push to cut credit card late fees. Consumers that fall behind on their bills can face a penalty as high as $41 per month, an amount that can result in some of the most cash-starved Americans falling deeper into debt. The fees have proved lucrative for credit card issuers, which reaped more than $130 billion last year in these charges plus interest on unpaid balances, according to an October report from the CFPB."*

It takes a careful reader to notice that in three short sentences, The Washington Post goes from talking about the impact of late fees, to citing numbers about all credit card fees plus interest (which in total are about nine times the size of late fees). The article makes no attempt to disaggregate the interest component from the number it cites, much less the impact of other types of credit card fees, which is a misrepresentation of the actual story of late fees.

The Post at least includes a chart specific to late fees. But the chart is titled "Credit card late fees on the rise" (Figure 1, below). However, it's not clear that late fees are actually rising, particularly if you put late fees in the appropriate context.

FIGURE 1 | Screenshot from the Washington Post's November 19 Article

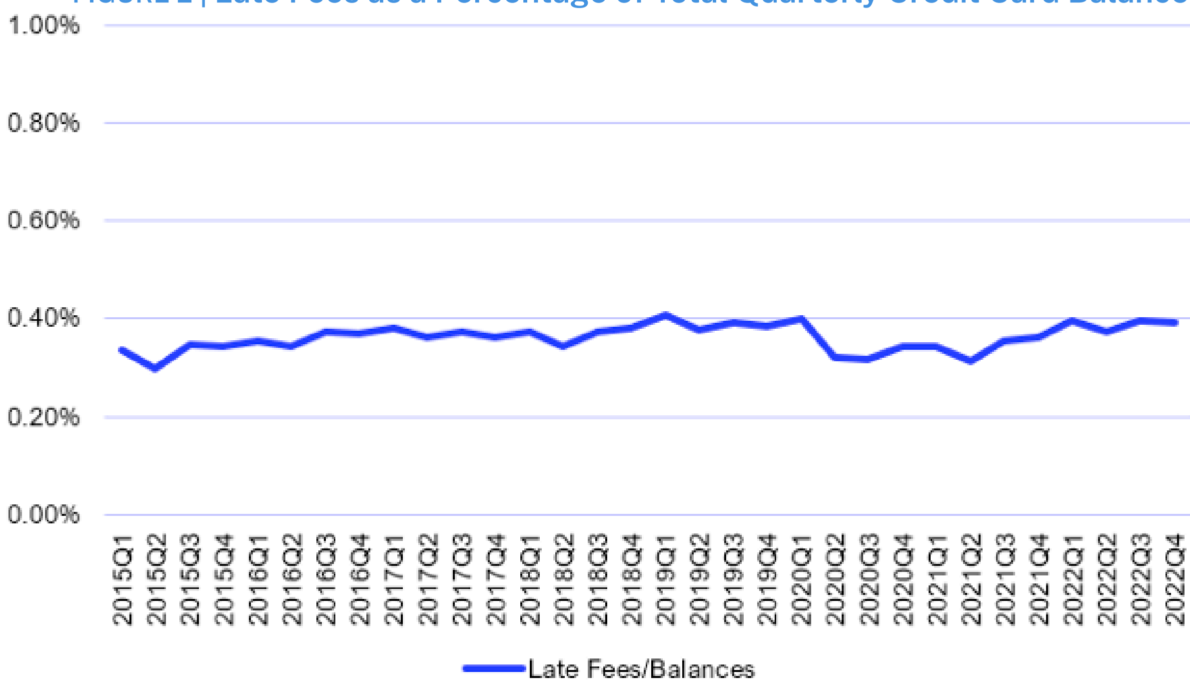


As the CARD Act Report explains, "[t]otal late fee volume and incidence in 2022 returned to pre-pandemic levels, following declines in 2020 and 2021." The pandemic years were somewhat of an anomaly because, as the CARD Act Report notes, "[d]eclines in late fees in 2020 and 2021 may be attributed to card issuer late fee waiver programs and other forms of federal disaster relief implemented on a temporary basis during the pandemic" (pg. 65). Said another way, what The Post describes as a "rise" is more likely fees normalizing after the pandemic.

Regulators and reporters can better inform their audiences by putting the nominal amount of late fees in the context of the nominal amount of credit card debt. For instance, The Post and CFPB press release each highlight that late fees have grown to $14.5 billion in 2022. But each source fails to explain that the fees grew commensurate with the growth of credit card accounts and balances. If you have more credit cards and more balances, you'll have more fees.

If you take the time to create that context and look at late fees as a share of balances, late fees have remained relatively constant since 2015 (Figure 2, below).

FIGURE 2 | Late Fees as a Percentage of Total Quarterly Credit Card Balance



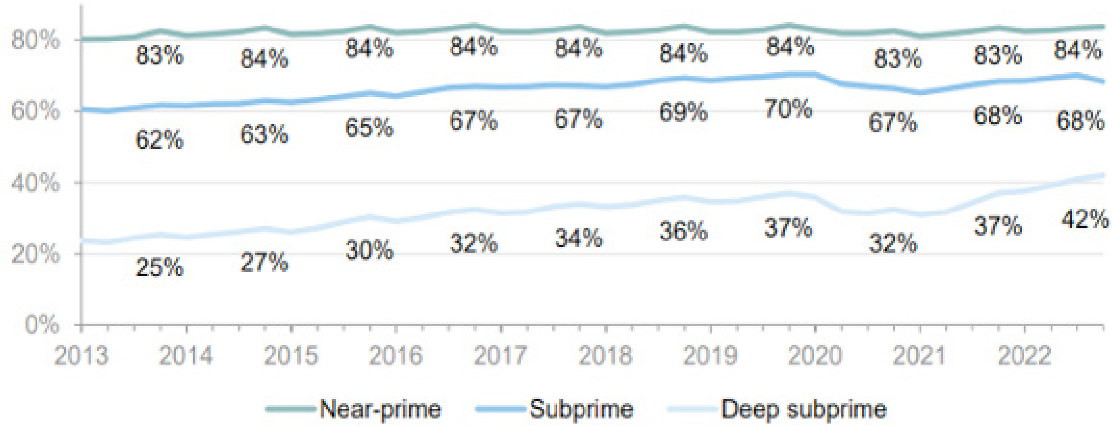
Source: CFPB 2023 Credit Card Market Report

The CARD Act Report appears to show that the proportionate growth in overall credit card fees is attributable to the increased availability of credit for lower-scored consumers, as well as higher annual fees.

While the CARD Act Report doesn't show late fees as a percentage of balances, it does use that measure to show that overall fees "have grown as a share of balances" (pg. 63). What's driving that growth in overall fees? Looking at the CARD Act Report, we think two different things are happening at once.

First, credit card issuers have made significant progress in underwriting more consumers with lower credit scores. The CARD Act Report shows this growth (Figure 3, below).

FIGURE 3 | CFPB CARD Act Report Chart on Below-Prime Consumers with at Least One Credit Card



As the CARD Act Report points out, consumers with lower credit scores are more likely to pay late fees each year (pg. 65). But failure to pay bills on time may be why those consumers have subprime and deep subprime credit scores in the first place. (The CFPB has a "How to rebuild your credit" consumer tipsheet that warns that "[t]here are no shortcuts or secrets." The CFPB's first step is: "1. Pay your bills on time, every time.")

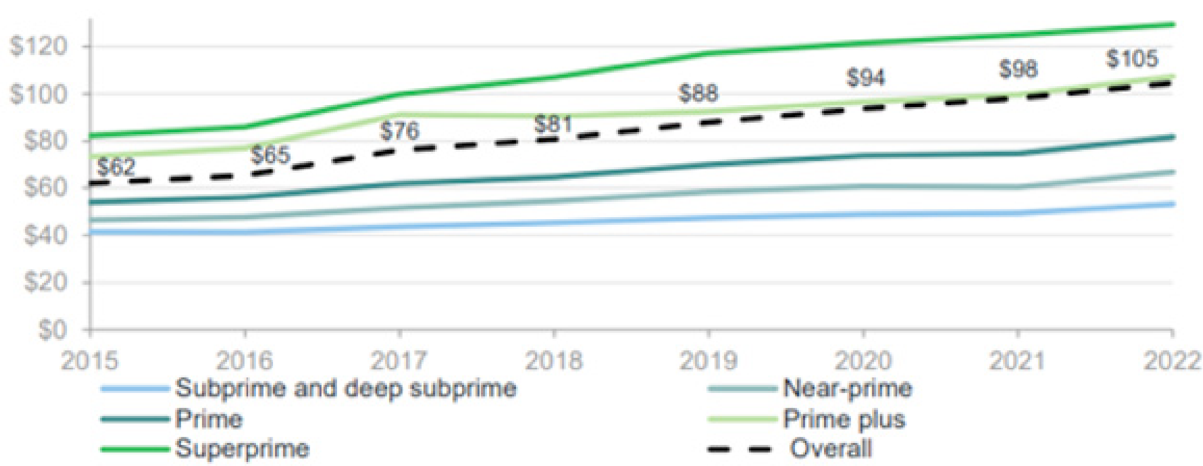
Second, the CARD Act Report explains that while late fees returned to 2019 levels, annual fees grew in 2021 and 2022 (pg. 5). In fact, "[a]nnual fee volume has more than doubled from $3.0 billion in 2015 to $6.4 billion in 2022." The CARD Act Report further states that "while the percentage of consumers who pay an annual fee declined, the total dollars paid in annual fees was the highest level in our data."

Per the CARD Act Report:

> *"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 super-prime scores were charged an average of $129 in annual fees in 2022 for each account that carried such a fee."*

The CARD Act Report shows the growth in average annual fees over the years, segmented by credit. The green lines show the material growth in super-prime and prime annual fees (Figure 4, below).

FIGURE 4 | CFPB CARD Act Report Chart on Average Annual Fees



The CARD Act Report shows annual fees are mostly paid by consumers with the highest credit scores.

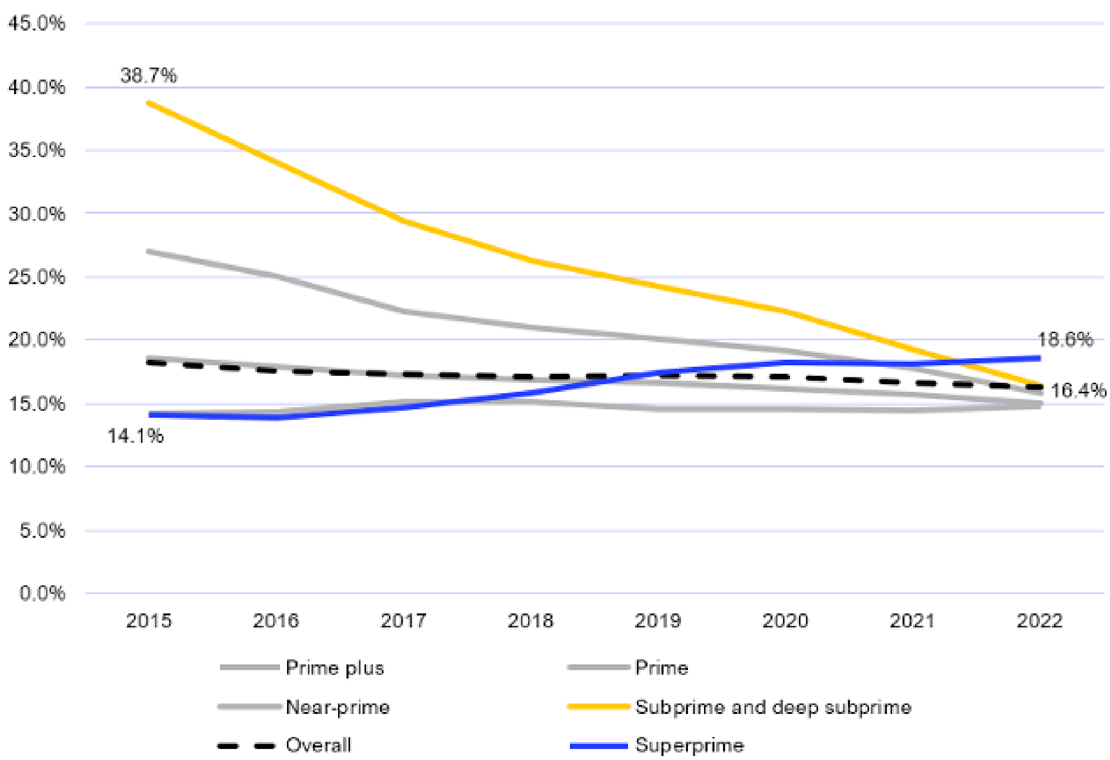
One of the most interesting parts of the CARD Act Report's discussion of fees is overlooked by the CFPB's press releases: while total annual fees have doubled since 2015, card issuers have shifted those fees away from consumers with lower credit scores. Instead, increases in annual fees are primarily paid by high-credit prime and super-prime consumers.

Here's how the CARD Act Report (pg. 63) describes it:

> *"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 super-prime tiers pay this charge each year. In contrast, annual fees have become less prevalent for cardholders with below-prime scores."*

The CARD Act Report has a striking chart (pg. 64), showing the plummeting prevalence of annual fees for subprime and deep subprime accounts. According to the CFPB's data, consumers in the subprime and deep subprime categories have seen their share of annual fees decline by nearly 25 percent since 2015. We've replicated the CFPB's chart below (showing the decline in prevalence of late fees for subprime and deep subprime consumers in yellow). But in our chart, we've also highlighted the corresponding changes for super-prime consumers, in blue, showing annual fees have not only grown larger but have also become more common for consumers with the highest credit scores (Figure 5, below).

FIGURE 5 | Quarterly Annual Fee Prevalence for General Purpose Cards



Source: CFPB 2023 Credit Card Market Report

Conclusion

As with our prior blog on competition, the CFPB's press releases and speechwriters seem to tell a different story than the CFPB's actual data. If you focus on just late fees, the CARD Act Report appears to show that credit card issuers are holding steady at pre-pandemic averages. But if you broaden the discussion, the CARD Act Report tells a much more interesting story about the credit card market.

First, card issuers are making significant progress underwriting consumers with the lowest credit scores. This means that more people now have access to better-regulated credit than ever before. And even accounting for late fees, credit cards usually offer cheaper and more highly regulated credit than what would otherwise be available to those consumers.

- In 2015, the CFPB highlighted that 45 million Americans lacked sufficient credit histories for credit scoring. These "credit invisibles" are effectively shut out of many mainstream financial services. Over time, the CFPB found that credit cards are by far the primary way for "credit invisibles" to become visible.
- Similarly, the CFPB found during the pandemic that minority consumers disproportionately turned to payday, auto title or pawn loans to make ends meet, when they actually could have used credit cards. Credit cards would generally have been less expensive than these alternatives. Just as importantly, credit cards could help these consumers build their credit histories, eventually helping them get access to cheaper auto loans, home mortgages, and other financial tools.

Second, the CARD Act Report shows that issuers are charging consumers with lower credit scores fewer and lower annual fees. Card issuers are instead competing and innovating to offer products to prime and super-prime consumers with higher annual fees. In doing so, they are growing revenue by charging larger fees, more frequently, to consumers with the highest credit scores.

Against this backdrop, it is striking that the CFPB's press release doesn't mention this change in annual fee practices, credit invisibility, or card issuers' expansion of credit to subprime and deep subprime consumers.

But regardless of the CFPB's press releases and speeches, banks and credit card issuers continue to provide services broadly and equitably, as represented by the data in the CARD Act Report.

PART THREE

CARD Act Report Highlights Banks' Positive Impact on Consumers' Financial Resilience

In October, the CFPB released its sixth report on the credit card market, as required by the Credit Card Accountability Responsibility and Disclosure Act of 2009.

The CFPB's press release accompanying the CARD Act Report gives the impression that consumers are increasingly falling behind on their credit card payments (emphasis added):

- *"The report highlights areas of concern, **including more consumers carrying balances month to month**, with many falling deeper into debt over time, while credit card company profits remained significantly above pre-pandemic levels."*
- *"All in all, the data show more cardholders are being charged late fees, **falling behind on payments**, and facing higher costs on growing debt."*
- *"More borrowers getting caught in debt: **More cardholders are carrying balances month to month or falling behind on payments**, and a greater percentage of balances are going more than 180 days delinquent.* **Nearly one-tenth of credit card users find themselves in "persistent debt"** *where they are charged more in interest and fees each year than they pay toward the principal—a pattern that could become increasingly difficult for some consumers to escape."*

In actuality, the CARD Act Report's data shows a very different story:

- The CARD Act Report shows a notable shift in consumer behavior, in which more consumers are paying their credit card balances off each month than in prior years.
- Consumers are paying down higher shares of credit card balances than in recent years, reducing their debt burdens and increasing their credit scores.
- While "persistent debt" increased after pandemic stimulus ended, the rates of "persistent debt" with consumers remains lower than each and every pre-pandemic year in the CFPB's data.
- These improvements in consumer financial resilience are partially due to actions banks have taken to ensure consumers make more progress paying down their balances.

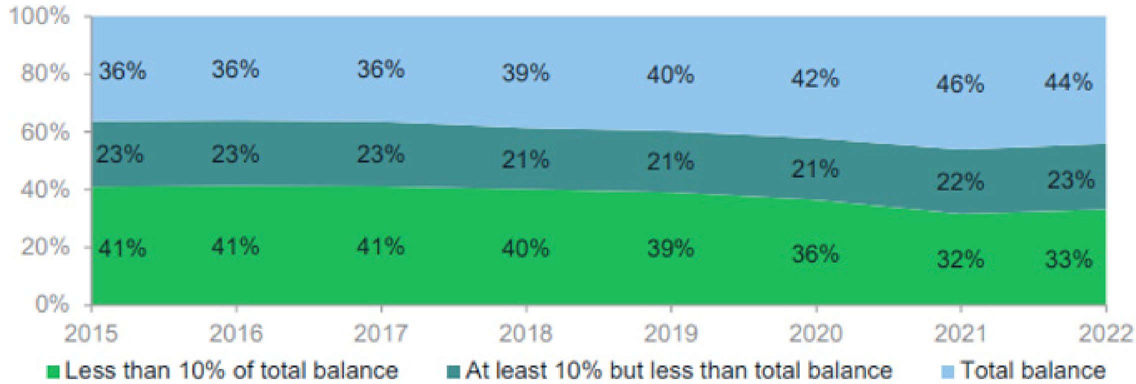
The CARD Act Report shows a notable shift in consumer behavior, in which more consumers are paying their credit card balances off each month than in prior years.

It's difficult to understand or defend the CFPB's assertions that "more cardholders are...falling behind on payments" and "more consumers [are] carrying balances month to month." The CFPB's data appears to show the exact opposite trendline: more cardholders are paying their balances in full each month than any year in the CFPB's data.

The CARD Act Report says clearly on page 38: "More than two-fifths of accountholders with a balance pay their balances in full, up two percentage points from our last report."

- The CARD Act Report goes on to include a chart (Figure 1, below), which shows that the share of consumers that pay their balances off in full (in light blue, at the top of the graphic) is materially higher than before the pandemic, and any other year in the CFPB's data.

FIGURE 1 | Annual Share of Accounts by Payment Amount (Y-13)



Source: CFPB 2023 Credit Card Market Report

Further, the share of consumers that pay 10 percent or less of their balance (in green, at the bottom of Figure 1) "has declined six percentage points since 2019." (p.38). That's over a 15 percent proportionate drop – and a better rate than any pre-pandemic year in the CARD Act Report's data set.

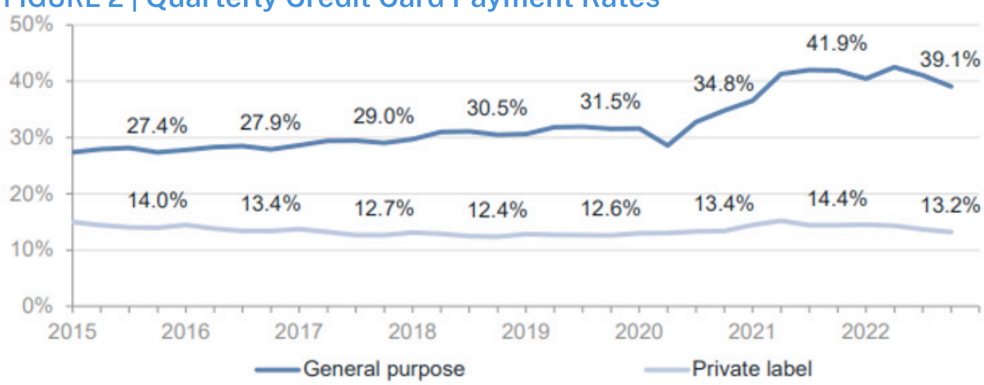
Consumer improvements in paying down debt have been so significant the CARD Act Report specifically mentions that it's a big deal: "Consumers tend to display consistent transacting and revolving activity over time, which makes the shifts in repayment behavior observed in recent years particularly notable" (p. 38).

Consumers are paying down a higher share of credit card balances, reducing their debt burdens and increasing their credit scores.

Contrary to the bleak conditions described in the CFPB's press release, the CARD Act Report shows that consumers are paying down their credit card balances at materially higher rates than in previous years. As the CARD Act Report explains, "[t]he payment rate is the share of total cycle-beginning balances paid that cycle" (pg. 36).

- The CARD Act Report continues: "[g]eneral purpose card repayment averaged 40 percent of balances in 2021 and 2022." The Report explains that this is "up from pre-pandemic figures of roughly 30 percent" (pg. 36). That's impressive enough, but Figure 9 in the CARD Act Report (Figure 2, below) shows that consumers are making progress on their credit card debt at the highest rates since 2015.

FIGURE 2 | Quarterly Credit Card Payment Rates



Source: CFPB 2023 Credit Card Market Report

And looking back at the 2015 CARD Act Report, payment rates were only 20 percent prior to the 2008 recession and then grew to around 27 percent – a benchmark that the then-CFPB (led by Director Richard Cordray) lauded because it would "lower the risk of consumer harm in this market" (pg. 49-50).

Although the CFPB's press release opts to not mention the material increases in consumer payment rates, the progress is an important contributing factor to consumer financial resilience. As the CARD Act Report explains, "higher payment rates tend to reduce revolving debt, lower utilization, and increase [credit] scores."

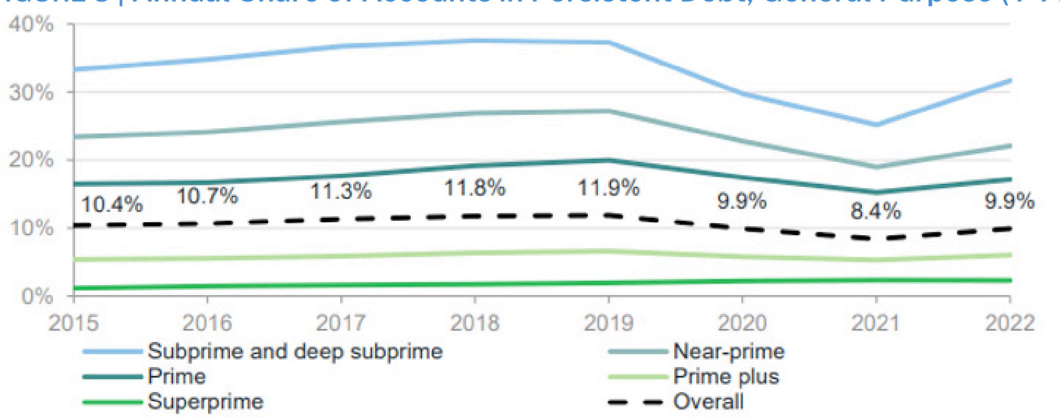
Rates of "persistent debt" remain lower than each and every pre-pandemic year.

The CFPB's press release goes on to sound the alarm that nearly one-tenth of consumers meet the Bureau's definition of being in "persistent debt" (paying more in interest and fees than what is paid toward principal each year). However, the press release fails to put this figure in context.

A figure from the CARD Act Report tracking the annual share of accounts that meet the CFPB's definition of persistent debt shows that although rates of persistent debt have risen in the last year from 8.4 percent to 9.9 percent (the dotted "Overall" line in Figure 3, below), the rise coincides with the end of pandemic-era public and private stimulus programs.

Importantly, the current rate of accounts that meet the CFPB's definition of "persistent debt" is lower than each and every year prior to the pandemic.

FIGURE 3 | Annual Share of Accounts in Persistent Debt, General Purpose (Y-14)



Source: CFPB 2023 Credit Card Market Report

These improvements in consumer financial resilience are partially due to actions banks have taken to ensure consumers make more progress paying down their balances.

When pondering the "notable" improvements in consumer repayment behavior, the CARD Act Report notes that "[o]ne explanation may be improving financial conditions for some cardholders, perhaps due to pandemic-era stimulus programs" (pg. 38). But there are other contributing factors. In particular, the CARD Act Report notes that banks made changes to their card agreements, which likely had a role in improving consumer pay-down amounts: raising minimum payment requirements.

Card issuers set minimum payment calculations that determine how much cardholders must pay to avoid late fees. On the one hand, higher minimum payments might help consumers, because it helps ensure that consumers make progress paying off their debt. But as the CARD Act Report explains, setting a minimum payment amount presents a difficult balance for card issuers

> *"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" (pg. 41).*

So, what did the CARD Act Report find? The most common floor set by credit card issuers is now "$35 – a $10 increase since 2015" (pg. 40).

Remarkably, card issuers were able to make these increases in minimum payments (a 40 percent increase!) while still making significant progress providing financial services to "credit invisibles" and other consumers on the margins.

As described in our last blog post, the CARD Act Report shows that in recent years card issuers have materially expanded access to credit for consumers with the lowest credit scores, growing credit access without causing a corresponding increasing late fees.

Conclusion

Consistent with our first two blog posts, the CARD Act Report seems to tell a different story than what the CFPB asserts in their press releases. In this case, the distance between the CFPB's press release and reality is dismaying and concerning.

The CFPB's press release asserts the exact opposite conclusion from what the CFPB's actual data shows:

- More consumers are paying off their entire credit card balance each month;
- Revolvers are paying down their credit card debt at historically high rates, an important contributor to overall financial resilience;
- The percentage of consumers that meet the CFPB's definition of "persistent debt" is lower than each and every pre-pandemic year; and
- Card issuers are at least partially responsible for these increased paydown rates because card issuers have managed to raise minimum payment floors (requiring that consumers pay more into their credit card debt each month), without reducing credit access or raising late fees on consumers that are on the margins.

On these particular issues, the CFPB's misleading headlines are difficult to justify or even explain. But the CARD Act Report and CFPB data demonstrate that, regardless of the CFPB's press strategy and speeches, banks and credit card issuers continue to make important improvements in consumers' ability to manage their credit, while still providing services broadly and equitably.

PART FOUR

In CARD Act Report Press Release, CFPB Seemingly Ignores Basic Risk-Based Pricing Principles

This is the final installment of CBA's "Facts Matter" series, which highlights the stark contrast between what the CFPB says in its press releases and what its research actually conveys.

Prior blog posts in this series have focused on data from the CFPB's October Consumer Credit Card Market Report (CARD Act Report), explaining in more plain language terms what the numbers actually mean. In doing so:

- We found, contrary to the CFPB's statements about a "lack of competition," the CFPB's actual data on marketing spend, balance transfers, and innovation shows the credit card market is vibrantly competitive.
- We rebutted the CFPB's misleading assertions about growth in late fees by showing late fees have generally remained steady in proportion to card balances over the years – and that annual fees have actually shifted away from low-credit consumers to high-credit consumers.
- We showed the CFPB's data on "persistent debt" were almost exactly opposite from the CFPB's statements to the press. In fact, consumers are making greater progress paying down their credit card debt than in recent years (and banks are at least partially responsible for this healthy shift in consumer behavior).

This final feature necessarily takes a less data-driven approach and is instead more qualitative because the particular CFPB assertion we're addressing here is uniquely puzzling.

Below, we have reprinted the primary and secondary headlines from the CFPB's press release for the CARD Act Report.

CFPB Report Finds Credit Card Companies Charged Consumers Record-High $130 Billion in Interest and Fees in 2022

Consumers with revolving debts on average pay far more in interest and fees than get back in rewards

The subheading of the CFPB's press release, outlined in orange, says: "Consumers with revolving debts on average pay far more in interest and fees than get back in rewards."

It's difficult to understand why the CFPB believes it is newsworthy to clarify that it costs money to borrow.

Consider two consumers: Alex and Bryce.

- Alex charges $500 on her credit card and pays back her balance, in full, before the end of the month. Alex pays only $500 that month.
- Bryce charges $500 on her credit card. But at the end of the month, Bryce only pays a minimum payment of $35. Bryce then has a remaining balance and will incur additional interest on what she owes. For consumers like Bryce, paying only a small fraction of her total charge is an important value, because it provides liquidity for emergency expenditures or smooths her finances across paychecks. But it also costs Bryce money to borrow that $500. That's due to the bank's cost of providing the money; the risk of non-repayment; and a range of other factors.

Simply put, it costs money to borrow money.

After ten years of studying the credit card market and publishing five prior CARD Act Reports, it is perplexing that the CFPB deemed this finding headline-worthy.

We have struggled with ways to address the CFPB's headline here without seeming patronizing.

While the CFPB is not a safety and soundness regulator (unlike the Federal Reserve, FDIC, OCC), we believe the nation's primary regulator of consumer financial products and services surely understands that if consumers could net positive by borrowing money, the safety and soundness of each and every financial institution would be jeopardized. If you do this at scale (who wouldn't love to borrow money for free!) financial stability for the country as a whole would be at risk.

Accordingly, we are left with several questions:

- We have questions about how the CFPB views banks, as businesses.
- We have questions about the seriousness with the CFPB appreciates the complexity of risk management within individual institutions and across the financial system.
- And finally, we also have a range of operational and governance questions about the extent to which the CFPB's statements to the public are vetted by its experts, lawyers, or otherwise reviewed.

Nevertheless, we conclude this blog series where we began: Facts matter when policymakers write regulations.

And, regardless of what the CFPB's press releases and speeches may represent, banks and credit card issuers continue to provide services broadly and equitably, as evidenced by the data – the facts – in the CARD Act Report.