



Consumer Financial  
Protection Bureau

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## **CFPB Finds CARD Act Helped Consumers Avoid More Than \$16 Billion in Gotcha Credit Card Fees**

***Concerns Remain About Other Back-End Practices Such As Deferred-Interest Promotions***

**WASHINGTON, D.C.** — The Consumer Financial Protection Bureau (CFPB) today released a report detailing how the Credit Card Accountability Responsibility and Disclosure Act (CARD Act) has helped reduce the cost of “gotcha” credit card fees by more than \$16 billion. Since the reform law, total costs to consumers have fallen with the elimination of certain back-end pricing practices such as over-limit fees. Over the same period, credit has generally become more available to consumers and the number of new accounts has grown faster than in almost every other major consumer credit market. Concerns remain, however, about other back-end practices such as deferred-interest promotions that can hit consumers with unexpected costs.

“The CARD Act has helped people avoid more than \$16 billion in gotcha credit card fees,” said CFPB Director Richard Cordray. “The law made it easier for consumers to evaluate costs and risks by eliminating the worst back-end pricing practices in the market. There is more work to do. But with commonsense rules in place, credit cards are safer and more affordable, credit is more available, and companies remain profitable with improved customer satisfaction.”

More than 60 percent of adults own at least one credit card account. In the first six months of 2015, more than 14.5 billion credit card transactions accounted for more than

\$1.4 trillion in purchase volume. Before the CARD Act, widespread back-end pricing practices racked up costs for consumers through hidden fees and other gotchas. Signed into law in May 2009, the CARD Act created a fairer and more transparent market by protecting consumers against unexpected interest rate hikes, excessive late fees, and hard-to-avoid over-limit fees. The CFPB assumed authority for the CARD Act in July 2011.

The CARD Act directs the CFPB to regularly review the credit card market and the impact of the law's rules. This is the CFPB's second report. Today's report finds that, generally, consumers are paying less for their credit cards than they did before the law, and those costs are easier to predict before they are incurred. In addition, credit availability has continued to expand for consumers. Specifically, the report found that since the CARD Act:

- **Consumers have avoided more than \$9 billion in over-limit fees:** Before the CARD Act took effect, card issuers charged back-end fees that consumers might not discover until they owed the money. Card issuers could authorize transactions that put consumers over their credit limit and then charge a typical \$35 over-limit fee. The CARD Act effectively eliminated these fees by requiring companies to get an affirmative opt-in from consumers to be charged for exceeding their credit limit. Had these fees continued at their pre-CARD Act level, consumers would have paid \$9 billion more from the beginning of 2011 through to the end of 2014.
- **Consumers have saved more than \$7 billion in late fees:** The CARD Act also required that penalty fees, such as late fees, be "reasonable and proportional" to the relevant violation of account terms. Today's report found that the average late fee has declined by 20 percent since the CARD Act. Had these fees continued at their pre-CARD Act level, consumers would have paid more than \$7 billion from 2011 through 2014.
- **Total cost of credit is roughly 2 percentage points lower than before the CARD Act:** The total cost of credit includes all fees and finance charges paid by the consumer to the card issuer. Today's report, similarly to the CFPB's 2013 report, found that the total cost of credit is almost 2 percentage points lower than it was prior to the enactment of the CARD Act.

- **Available credit has increased 10 percent since 2012:** Today's report found that credit card credit is increasingly available to consumers. In total, consumers have access to nearly \$3.5 trillion in credit as of early 2015. This represents an increase of nearly \$325 billion—or 10 percent—since early 2012.
- **More than 100 million credit card accounts were opened in 2014:** New account volume is growing. This growth in account volume is outpacing population growth. For the last two years, annual growth in credit card accounts has been around 3 percent. The adult population in the U.S. has grown more slowly at around 1 percent.
- **More than 100 million credit card accounts offer consumers free access to their credit scores:** Consumers' credit scores are one of the key determinants of whether or not they will have access to credit. Unrelated to the CARD Act, in just the last few years, credit card issuers have responded to calls from the Bureau and other parts of the federal government to make their customers' credit scores available. As of late this year, more than 100 million accounts now offer free access to the accountholder's credit scores.

## Risky Practices Remain a Concern

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

- **Deferred-interest promotions can hit consumers with back-end pricing:** Deferred-interest promotions on credit cards dangle the possibility of financing purchases without interest. With these products, if the balance is not paid in full by a given date, the accumulated interest is assessed retroactively. Deferred-interest products remain the most glaring exception to the general post-CARD Act trend toward upfront credit card pricing. Consumers with lower credit scores are paying more for these products, but they do so at the back-end of the transaction, with annual interest rates of around 25 percent.
- **Subprime credit card companies charge much more for credit:** When the credit is being provided by a subprime specialist credit card company, the total cost to consumers with lower credit scores can be much more than what they would pay on a mass market credit card. These companies charge more for

origination and maintenance fees. This puts consumers at risk of more of their monthly payments going toward fees and interest charges, instead of the principal balance. Subprime companies also tend to have longer, more complicated agreements.

- **Rewards programs have obscure and incomplete terms and conditions:** Over half of all consumers say they select credit cards based on the rewards they provide. But the terms of rewards programs are often not available to consumers until after they apply for the card. Even then, some rewards terms may be obscured by glossy “program guides” that provide only partial information. And if consumers were to find, read, and understand the terms, they would frequently discover that issuers retain the right to change those terms at any time, for any reason.
- **Debt collection practices pose risks to consumers:** When consumers fall behind on their bills, their accounts are moved into collections. Initially, collections are generally handled in-house. There is a wide variation in how aggressively these collectors pursue the debts. After a while, accounts that have not been paid are often placed with third-party debt collectors that compete with other collectors and are paid a percentage of the debts they collect. Banks vary widely on the extent to which they rely on these third-party collectors and also on the extent to which they sell unpaid accounts to debt buyers. The Bureau has found numerous problems in the practices of many of these third-party collectors, including the accuracy and completeness of their information.
- **Some agreements are still long and complex:** Today’s report identifies a number of opportunities for card issuers to improve the transparency of their products. For example agreements can still range in length from 3,000 to 8,000 words.

**Today’s report on the consumer credit card market can be found at:**  
[http://files.consumerfinance.gov/f/201512\\_cfpb\\_report-the-consumer-credit-card-market.pdf](http://files.consumerfinance.gov/f/201512_cfpb_report-the-consumer-credit-card-market.pdf)