American Bankers Association
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Submitted electronically at www.regulations.gov

Ms. Monica Jackson
Office of the Executive Secretary
Consumer Financial Protection Bureau
1700 G Street NW
Washington D.C 20552

Re: Notice and request for information regarding the credit card market
Section 502(a) of the Credit Card Accountability Responsibility and Disclosure Act of 2009
Docket No. CFPB-2012-0048
77 FR 75410 (December 20, 2012)

The American Bankers Association (ABA)[1] appreciates the opportunity to provide information to the Bureau of Consumer Financial Protection (Bureau) on how the Credit Card Accountability Responsibility and Disclosure Act of 2009 (CARD Act) and the related actions of the Federal Reserve Board (Board) under Regulation AA (Unfair and Deceptive Acts or Practices) taken prior to the Act's passage have impacted consumers and the behavior of the credit card industry. Section 502(a) of the CARD Act requires a review of the consumer credit card market every two years, including a review of the terms of credit card agreements and practices and the impact of the CARD Act on the cost and availability of credit, particularly with respect to non-prime borrowers.

The CARD Act has provided consumers with significant benefits, among them the elimination (with few exceptions) of increases on interest rates on existing balances, whether the regular purchase interest rate or an introductory or promotional rate. These restrictions help consumers avoid surprises due to increases in their interest rates. In addition, since implementation of the CARD Act, customers are paying significantly less in late payment fees and over-the-limit fees. Customers also appear to be paying a higher portion of their outstanding balances, perhaps due to the minimum payment disclosure of the CARD Act, which explains how long it will take customers to repay a credit card balance if they only pay the minimum payment.

While the CARD Act has provided clear and significant benefits to consumers, there have also been significant tradeoffs, specifically, higher costs and less availability for credit card credit. First, credit card interest rates are higher, despite the fact that interest rates are at historic lows in the economy in general and despite the average lower risk of accountholders. Both of these factors should have put

[1] The American Bankers Association represents banks of all sizes and charters and is the voice for the nation's $14 trillion banking industry and its two million employees. The majority of ABA's members are banks with less than $165 million in assets.

downward pressure on interest rates. In contrast to credit card accounts, interest rates are down for other consumer credit such as car loans and mortgages. Since 3Q 2008, credit card interest rates have increased by more than 72 basis points, a 5 percentage increase. Other consumer credit rates during the same period have declined significantly, e.g. mortgages by 268 basis points, a 42% percentage decrease, and auto loans by 204 basis points, a 29% percentage decrease.

Second, credit cards and credit card credit are less available during the same period, particularly for subprime borrowers. The amount of credit card debt outstanding has decreased at a higher rate than other consumer debt. Furthermore, credit card debt as a percent of disposable income has ***decreased*** while non-revolving, non-mortgage debt as a percent of disposable income has ***increased***.

While the severe economic conditions have had an impact on both credit card interest rates and credit card availability and lines of credit, the disparity between the costs, availability, and use of credit card credit and other consumer credit products during the relevant time period strongly suggests that the increased costs and reduced availability of credit cards cannot be explained by the economy alone. The CARD Act and related changes in the regulations applicable to credit cards are almost certainly a significant factor in the higher costs and decreased availability of credit cards.

For example, particularly impacted by the reduction in credit cards and credit card credit are those with lower credit risk scores, including those new to credit and the workforce, immigrants, and those who have had difficulty managing credit in the past who would like a second chance. This means that many low-and-moderate-income consumers, whom the CARD Act was intended to help, now have less access to credit cards to help them with unexpected expenses and emergencies as well as other conveniences credit cards offer.

That credit card interest rates have increased and credit card lending declined since the time it was clear the law was going to change is not surprising, given the fundamental changes to pricing practices mandated first by the Board in Regulation AA and subsequently by Congress in the CARD Act. These laws severely restricted the ability of card issuers to re-price loans based on deteriorating credit profiles of borrowers. Prior to the change in the law, lenders could take a greater risk in granting credit, especially with those with no or marred credit history, and offer credit at a lower initial rate because they were able to adjust the rate later if the borrowers' behavior indicated they were more likely to have difficulty repaying the loan. The ability to increase the price on existing balances helped to cover the increased losses and risk and provided an incentive for borrowers to improve their financial management and become less risky. Because card issuers can no longer, as a practical matter, re-price risk as borrowers' creditworthiness changes, card issuers must: (1) take fewer risks by limiting credit to riskier, subprime borrowers, including those new to credit and the work force and those who have mismanaged credit in the past who would like a second chance, and/or (2) increasing the cost of credit generally, in effect shifting the cost to those who have a history of managing their credit well. It appears that both, in fact, have happened.

In reviewing the impact of the change in credit card law, given the data that indicate less credit card availability for subprime borrowers, the Bureau should assess whether these consumers have turned to other sources of short term liquidity or credit to meet their needs due to unanticipated and day-to-day expenses. These alternatives may include more expensive, less convenient forms of credit. These unintended consequences of the CARD Act should be identified and evaluated before the Bureau proposes changes to Regulation Z or recommends legislative changes to Congress. More broadly, the Bureau should consider the effects of the CARD Act and related regulatory changes in the context of monetary and fiscal policy during the period of the adoption and implementation of the CARD Act. It appears that at the same time that the CARD Act led to increased rates and reduced availability of credit, other governmental policies were designed to reduce rates and to promote borrowing generally to stimulate the economy.

Background.

In early 2008, Congress and regulators raised concerns about certain credit card practices, especially about the practice of raising interest rates on existing balances of cardholders whose behavior indicated that they had become more likely to not repay the loan, e.g., as evidenced through a late payment and/or a decrease in their credit score. In response to Congressional hearings, the Board on May 2, 2008 proposed amendments to Regulation AA to address these issues.[2] In addition to other provisions, the proposed amendments restricted the ability of issuers to increase interest rates on existing balances. Separately, under Regulation Z, (Truth in Lending Act), the Board had already proposed comprehensive changes related to disclosures for applications, account opening agreement summaries, periodic statements, and changes in terms notices.

In December 2008, the Board adopted final amendments to Regulation AA, including the limitations on interest rate increases on existing balances. The Board also adopted on that day separate comprehensive revisions and expansions of disclosure requirements under Regulation Z. Those disclosures, tested with consumer focus groups, were designed to ensure consumers receive important information in a manner and format they are likely to notice, using terms they are likely to understand. The effective dates of the two regulations were scheduled for July 1, 2010, though issuers began to review and revise their business models once it was clear with the proposed May 2008 Regulation AA that significant, substantive new rules would be adopted, whether through Congressional or regulatory action. Regulation AA was ultimately subsumed into Regulation Z pursuant to the CARD Act and the effective dates adjusted according to the Act.

Shortly after the Board's adoption of new rules in December 2008, in January 2009, Representative Carolyn Maloney (D. NY) introduced in the House a bill that became the CARD Act. The bill incorporated a stricter version of the substantive restrictions of the Board's final Regulation AA and added other substantive provisions and disclosures. The President signed the bill on May 22, 2009.The bill was phased in over 15 months through three effective dates, with the initial restriction against increases to interest rates on existing balances going into effect after 90 days and the bulk of the credit card-related provisions going into effect nine months after the date of enactment. (See attachment A for timeline.) The separate Regulation Z disclosure provisions were incorporated into the final rule implementing the CARD Act.

Changes in credit card practices should be measured from the time it was clear there would be new laws that would fundamentally impact the credit card practices, that is, when the Board proposed Regulation AA amendments that were later incorporated into the CARD Act.

In evaluating the impact of key provisions of the CARD Act on card issuer behavior and credit card terms and credit card use more broadly, especially the restrictions on rate increases, the Bureau must measure changes in credit card experiences, practices, and terms from the date the Board proposed

[2] The proposed amendments to Regulation AA were released on May 2, 208 and published on May 19, 2008. See: http://federalreserve.gov/newsevents/press/bcreg/20080502a.htm

amendments to Regulation AA. The Bureau must assume that card issuers did not ignore consideration and adoption of the Regulation AA amendments, which contained essential elements of the core, most important provision of the CARD Act (restrictions on interest rate increases for existing balances) or waited until passage of the CARD Act or its effective dates to begin considering and making changes to their business model. Whether by agency regulation or Congressional statute, it was very clear by May 2008 that a key element ultimately included in the CARD Act and which had the greatest impact on consumers and the industry, was going to become law. Accordingly, the Bureau must include in its review of the CARD Act, changes in the credit card market, including terms and practices from the date of the proposed Regulation AA amendments.

Credit card data.

Data included in the discussion below includes data from Argus Information & Advisory Services (Argus) as well as data from Federal Reserve publications and other public sources. Argus's syndicated studies dataset, which is a longitudinal dataset of general purpose cards in the U.S. industry, constitutes data from all banks that participate in Argus' syndicated consumer credit card payments study and represents 95% of general consumer credit card accounts. The dataset, collected on a confidential basis, is derived from actual account-level and transaction-level credit card data that Argus receives directly from participating issuers.

While interest rates for other consumer credit have fallen, credit card interest rates have risen for credit card accounts overall since 3Q 2008 despite the higher average credit risk score of cardholders, which should put downward pressure on credit card rates.

Below is a summary of the Argus data showing the increase in credit card interest rates between 3Q 2008 and 3Q 2012 as shown in Table 1. Mature accounts are those open more than 24 months, new accounts are those open less than 24 months.

	Percentage change	3Q 2008 Interest rate	3Q 2012 Interest rate	Basis point change
Mature accounts	↑5.22%	13.78	14.50	.72 bp
New accounts	↑5.23	14.92	15.70	.78 bp

The increase in credit card interest rates contrasts with the opposite trend in other consumer credit where interest rates have decreased.

Type of loan	Percentage change in rate	Basis point change
Credit card	↑ 5.2%	↑ 72 and 78 bp (mature, new)
Personal loans	↓ 10%	↓ 11 bp
Auto loans	↓ 29%	↓204 bp
Mortgages	↓ 42%	↓268 bp

Thus, for credit cards, the average interest rate increased between 72 and 78 basis points, resulting in a percentage increase in the rate of more than 5% even though credit card borrowers are less risky, which puts downward pressure on interest rates. In contrast, interest rates have ***decreased*** substantially for other consumer loans. (Table 2)

Credit card credit contracted between 3Q 2008 and 3Q 2012, especially for subprime borrowers, at a rate much higher than for other types of consumer loans. Since the end of the recession, credit card credit has stagnated while some other forms of lending (mortgage, auto, and business loans) have returned to a growth phase. (Table 3)

By number of accounts, individual credit card lines, and total credit lines, there has been a contraction in credit card credit since 3Q 2008, especially among subprime consumers. According to the Argus data, between 3Q 2008 and 3Q 2012:

1. ***The number of accounts fell between 7% and 53% (Table 4)[3]:***

Mature accounts	Change between 3Q 2008 and 3Q 2012
Total	↓ 13.5%
Subprime	↓ 24%.
Prime	↓ 21%
Super-prime	↓ 7%
New accounts	
Total	↓34.5%
Subprime	↓ 53%
Prime	↓ 33%
Super-prime	↓ 11%

[3] The Argus data represent 95%+ of the U.S. general purpose credit card market.

2. ***The average credit line of individual accounts fell between 9% and 30% (Table 5):***

Mature accounts	Percentage change between 3Q 2008 and 3Q 2012
Subprime	↓ 17%
Prime	↓ 21%
Super-prime	↓ 9%
New accounts	
Subprime	↓ 30%
Prime	↓ 27%
Super-prime	↓ 24%

3. ***The total of credit lines fell between 35% and 64% (Table 6):***

Mature accounts	Percentage change between 3Q 2008 and 3Q 2012
Subprime	↓ 35%.
Prime	↓ 37%
Super-prime	↓ 36%
New accounts	
Subprime	↓ 64%
Prime	↓ 51%
Super-prime	↓ 36%

Thus, since 3Q 2008, credit card credit has contracted severely, as demonstrated by the reduction in the number of accounts, individual credit card lines, and total credit lines. Especially impacted are those with low credit scores.[4]

Although a contraction in credit might be expected due to economic conditions over the measurement period, the contraction of credit card credit is much higher than any reduction in other types of credit as demonstrated by the changes in credit card debt as a percentage of disposable income compared with other types of consumer debt and with overall debt levels. Further, other types of consumer lending have grown since the end of the recession, while credit card credit has not.

- ***Changes in debt as a percent of disposable income.*** Households have increased their non-revolving consumer credit as a percent of disposable income since 3Q 2008 by 14% (Table 7) but

[4] Although these data are from Argus, they are generally consistent with Federal Reserve Board data reported in the G.19.

decreased their credit card debt by 22% as a percent of disposable income. (Table 8) Mortgage debt as a percent of disposable income only fell 17% since 3Q 2008.(Table 9)

Change in debt as a percent of disposable income:

Type of credit	
Revolving consumer credit (credit card)	↓**22%**
Non-revolving consumer credit[5]	↑ **14%**
Mortgage	↓ **17%**

- ***Overall debt levels.*** In addition, between 3Q 2008 and 3Q 2012, overall credit card debt levels have decreased at a much higher rate than other consumer loans. (Table 10).

Type of Credit	
Credit card	↓ **21%**
Mortgage	↓ **14%**
Home equity lines of credit	↓ **17%**
Auto loan	↓ **5%**

- ***Credit growth.*** Since the end of the recession, credit card credit has stagnated while some other forms of lending (mortgage, auto, and business loans) have returned to a growth phase. (Table 3)

- ***Credit card lines**.* Among new accounts, the average credit line has decreased by $898 from $6,358 to $5,460, a decrease of 14.12%. (Table 1)

In sum, households have less credit card credit available and are using credit cards much less than they did prior to 2008.The decrease is disproportionate to other consumer loans, suggesting that something other than the economy, e.g., the CARD Act, is a factor in the contraction of credit card credit.

Credit card portfolios have shifted to less risky accounts.

The number and percentage of subprime account holders have decreased. Between 3Q 2008 and 3Q 2012, the composition of subprime borrowers in the Argus dataset, based on the number of accounts held, has decreased from 35% of the total to 27%, while super-prime increased from 30% to

[5] Includes auto loans and all other non-revolving loans, e.g., those for mobile homes, education, boats, trailers, and vacations.

40% and prime borrowers remained the same at 31%.[6] In addition, subprime accounts showed a greater percentage decrease in the number of mature and new accounts (Table 4) as well as average credit line (Table 5)and total credit line for new accounts (Table 6).

The consequence is that subprime borrowers are having more difficulty obtaining credit cards. This includes those who have little credit history or are new to the work force, including young people and immigrants, as well as those who have had financial difficulties but would like a second chance. Credit card experience is one of the most important ways for people to help build their credit history so that they will be eligible for other types of loans, including car loans and mortgages. It may also play a role in decisions related to insurance, home rental, and utilities.

Certain goals have been achieved. Consumers are paying less in over-the-limit and late payment fees and are paying a higher percentage of their outstanding balances.

Since passage and implementation of the CARD Act, the percentage of accounts paying late fees has dramatically declined. For new accounts, the percentage of accounts paying a late payment fee has declined from 8.45 to 2.00% since 2009, a decrease of 76.33%. For mature accounts the percentage has dropped from 7.30 to 1.80%, a decrease of 75.34% during the same period. (Table 1) We believe that the dramatic drop is in large part due to the CARD Act's requirements to provide statements at least 21 days prior to the due date (effective August 2010 and not part of Regulation AA), to highlight the due date on periodic statements along with other important information, and to designate the same day of the month as the due date (both effective February 2010). These provisions have made it easier for customers to make timely payments.

Accounts paying over-the-limit fees have seen an even more dramatic decrease. For new accounts, the percentage of new accounts paying over-the limit fees has fallen from 4.73% to .04%, a decrease of 99.15%, and for mature accounts from 2.04% to .03%, a decrease of 98.53%. (Table 1) We believe that this is in part due to the CARD Act provision that requires account holders to agree affirmatively to pay over-the-limit fees.

In addition to a decline in over-the-limit and late payment fees, customers have increased the amount of their payments and the percentage of balance paid since implementation of the provision requiring disclosure of the amount of time it will take customers to repay a credit card balance if they only pay the minimum payment, which went into effect in February 2010. Since 2009, the average monthly payment on new accounts has increased from $242 to $349 and on mature accounts from $353 to $420. At the same time, statement balances decreased from $1,429 to $1,154 for new accounts and $2,143 to $1,950 for mature accounts. (Table 1) Thus, for new accounts the percentage of the statement balance paid increased from nearly 17% to 30% and for mature accounts, from 16% to almost 22%.

Conclusion.

The CARD Act has provided clear and significant benefits to consumers especially with regard to the limitations on the ability to raise interest rates on existing balances, which eliminated unexpected increases in interest rates. In addition, fewer account holders are paying over-the-limit and late payment fees. However, it appears that there have been significant trade-offs. Since the proposal and adoption of

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[6] Data regarding credit risk scores are missing from some accounts. As a result, the percentages add up to less than 100%.

key provisions included in both Regulation AA and the CARD Act, average credit card interest rates have increased and credit card credit is less available, especially to subprime borrowers. In addition, credit card debt has decreased at a higher rate than other consumer debt and has decreased as a percent of disposable income as non-revolving debt as a percent of disposable income has increased. The disparity in the trends for credit cards and other types of consumer credit strongly suggests something other than the economy e.g., the CARD Act, is responsible for the changes in the credit card market.

The ABA appreciates the opportunity to provide information on this important matter and will continue to provide data to the Bureau as it comes available.

Sincerely,

Nessa E. Feddis

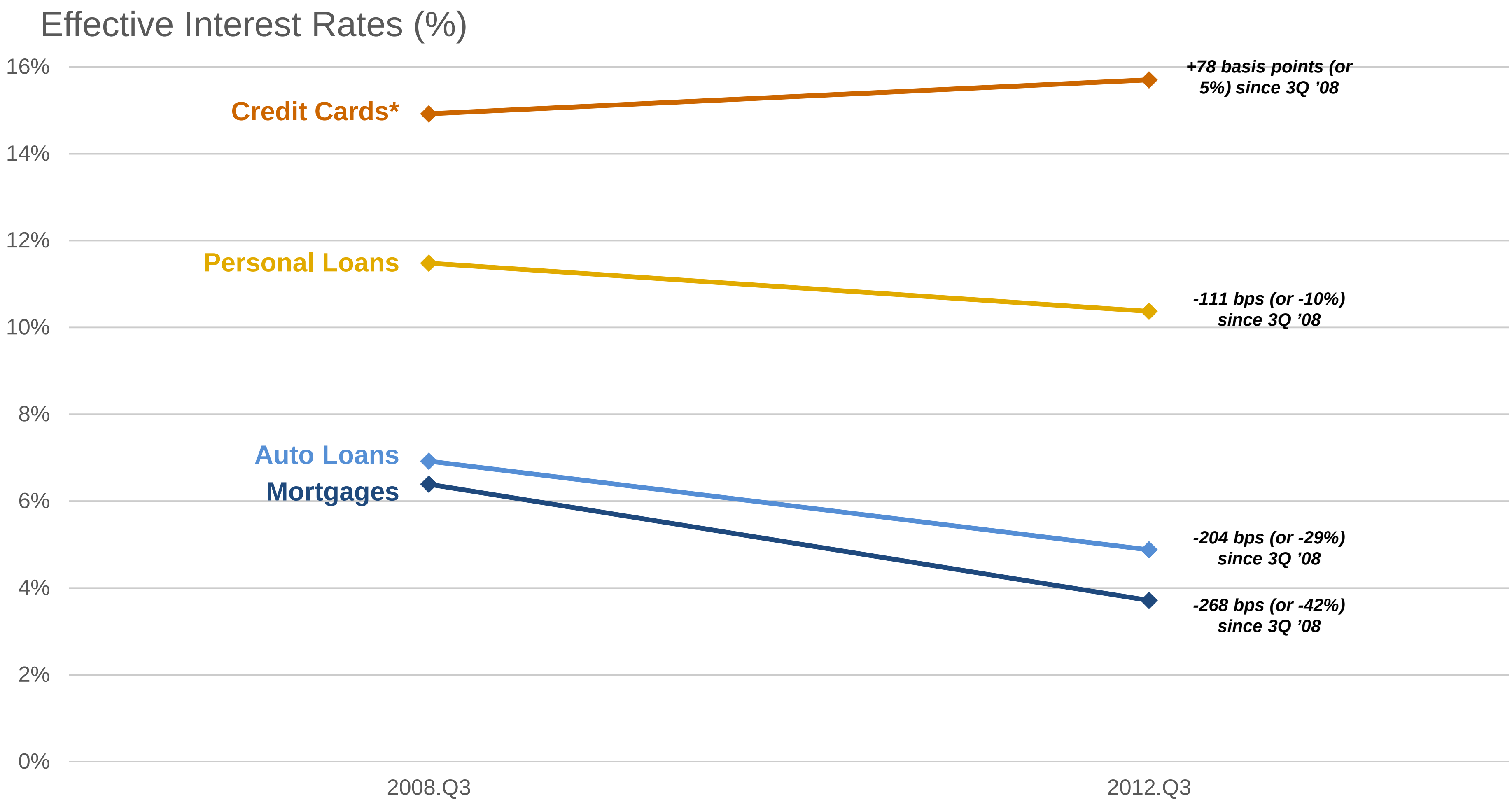
Nessa Eileen Feddis

Distribution of Key Performance Metrics

Distribution of Key Performance Metrics

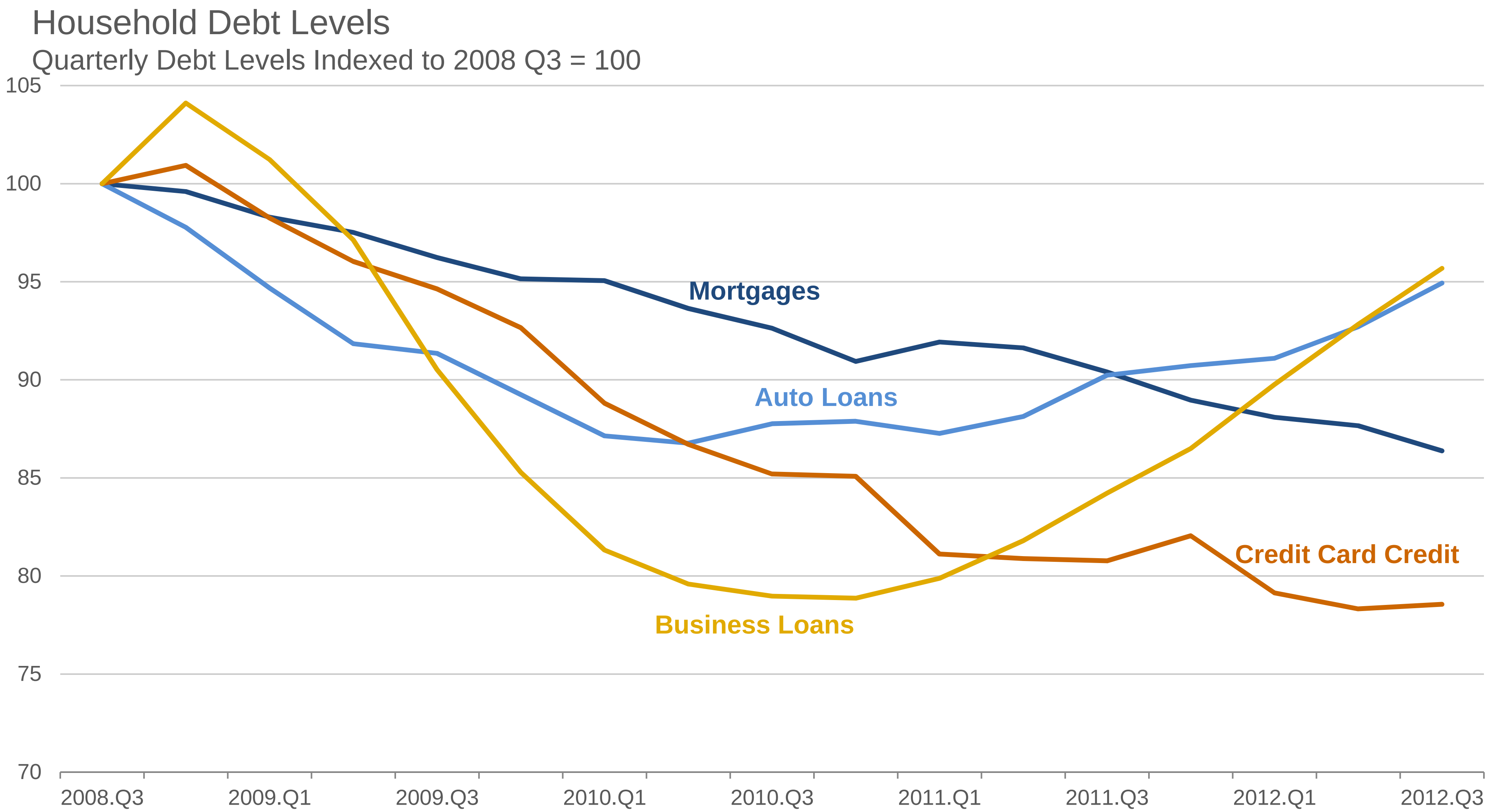
Metrics	New Accounts: 2007 < 24 months Overall	2008 < 24 months Overall	2009 <24 months Overall	2010 < 24 months Overall	2011 <24 months Overall	2012 < 24 months Overall	Mature Accounts: 2007 > 24 months Overall	2008 > 24 months Overall	2009 > 24 months Overall	2010 > 24 months Overall	2011 > 24 months Overall	2012 > 24 months Overall
Accounts (%)	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Average Risk Score	695	700	715	732	726	726	737	735	726	729	740	748
Average Credit Line ($)	6100.82	6357.96	6190.35	5889.83	5481.00	5460.00	10440.16	10716.94	10255.65	9987.03	10081.00	9995.00
Average Retail APR (%)	14.00	13.78	13.71	13.57	13.90	14.50	16.93	14.92	15.67	16.52	15.80	15.70
Average Balance Ending ($)	1466.52	1545.27	1428.68	1156.45	1128.00	1154.00	1657.60	1866.25	2142.57	2030.88	1985.00	1950.00
% of Accounts with Late Payment Fee (%)	10.19	10.77	8.45	5.80	2.00	2.20	6.31	6.83	7.30	6.09	2.00	1.80
% of Accounts with Over Limit Fee (%)	5.32	4.73	4.04	0.15	0.00	0.04	2.03	2.04	2.71	0.11	0.00	0.03
Monthly Payment ($)	251.18	246.52	242.94	288.50	320.19	349.65	335.10	334.43	353.18	381.12	405.92	420.75

Average credit card rates increased while the cost of other types of debt declined.



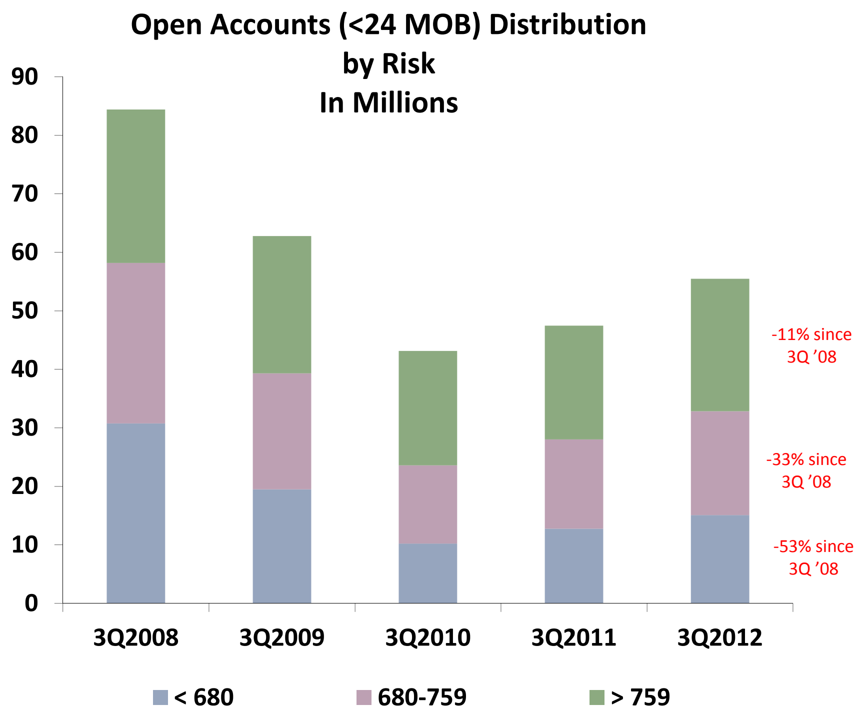
*Average APR for accounts more than 24 months old.
Source: Argus Information & Advisory Services LLC, Freddie Mac, Federal Reserve

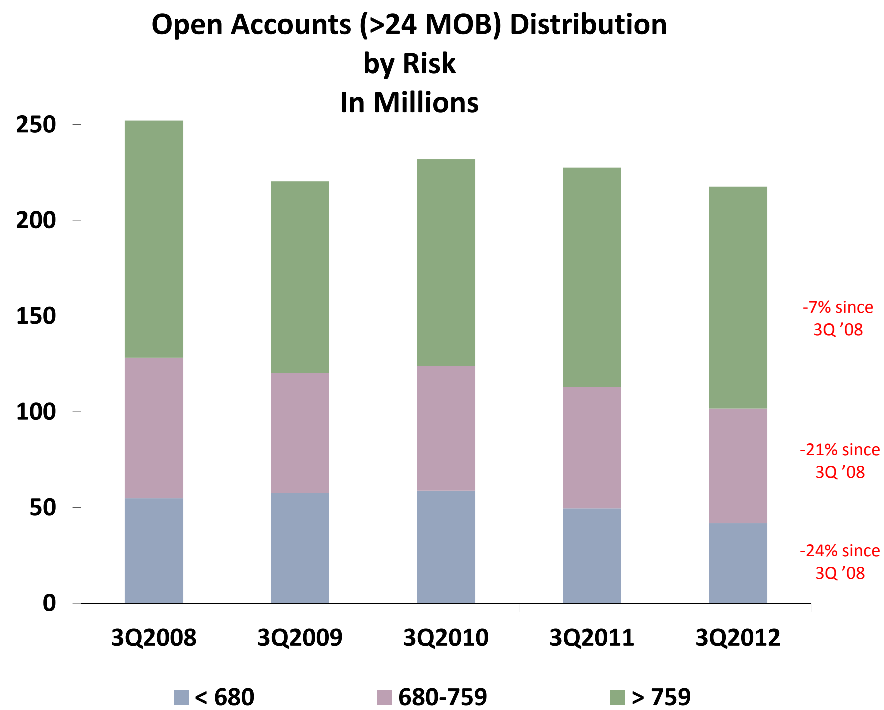
Since the recession ended, credit card credit has stagnated while some other forms of lending have returned to a growth phase.



Source: Federal Reserve, Bureau of Economic Analysis

Account volume fell across risk spectrum; most acute drops in low vintage, high risk

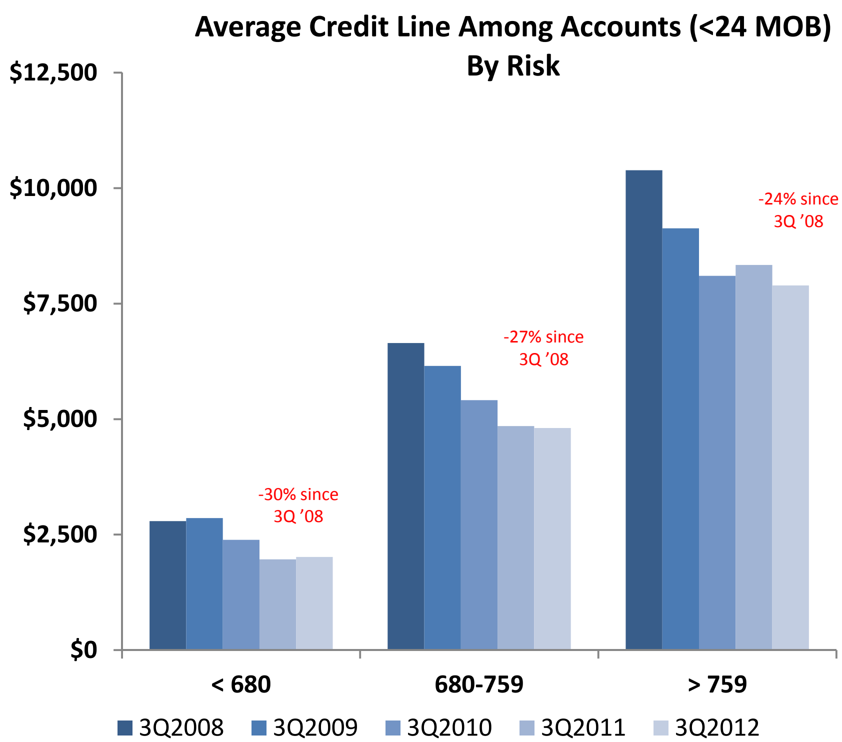


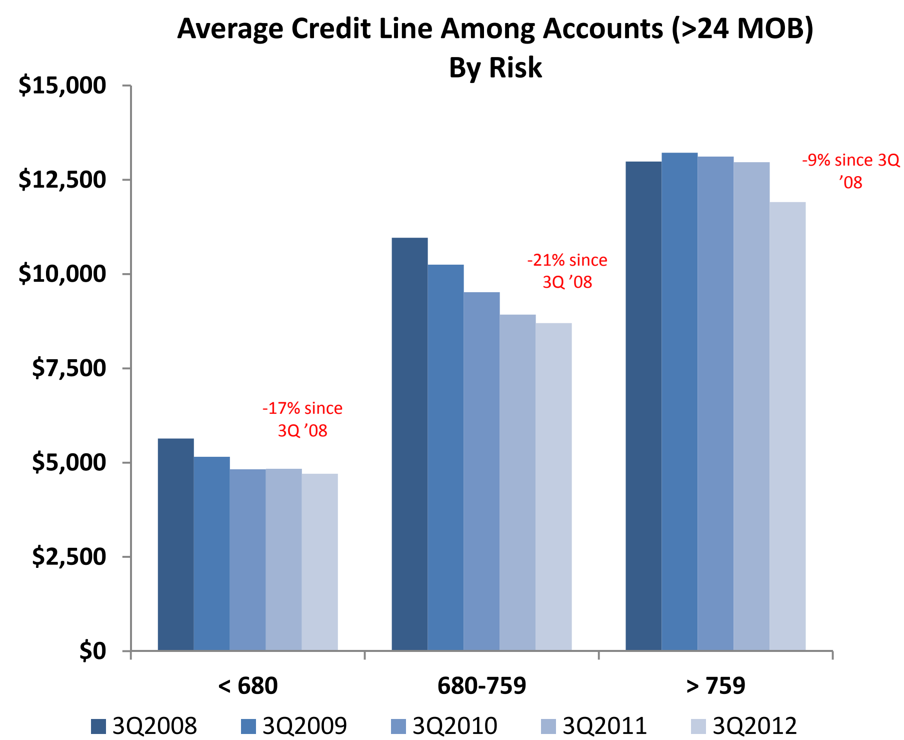


	3Q2008	3Q2009	3Q2010	3Q2011	3Q2012
% with Risk Score < 680	36.4%	31.1%	23.7%	26.9%	27.2%
% with Risk Score 680+	63.6%	68.9%	76.3%	73.1%	72.8%

	3Q2008	3Q2009	3Q2010	3Q2011	3Q2012
% with Risk Score < 680	21.7%	26.1%	25.4%	21.8%	19.2%
% with Risk Score 680+	78.3%	73.9%	74.6%	78.2%	80.8%

Initial lines are lower across all risk segments and vintages

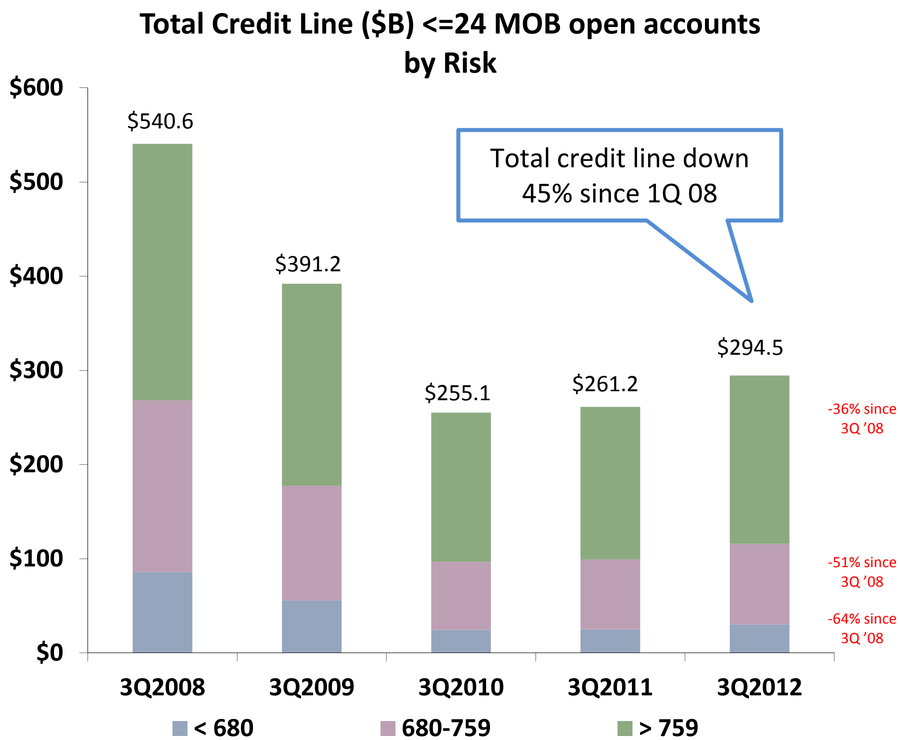


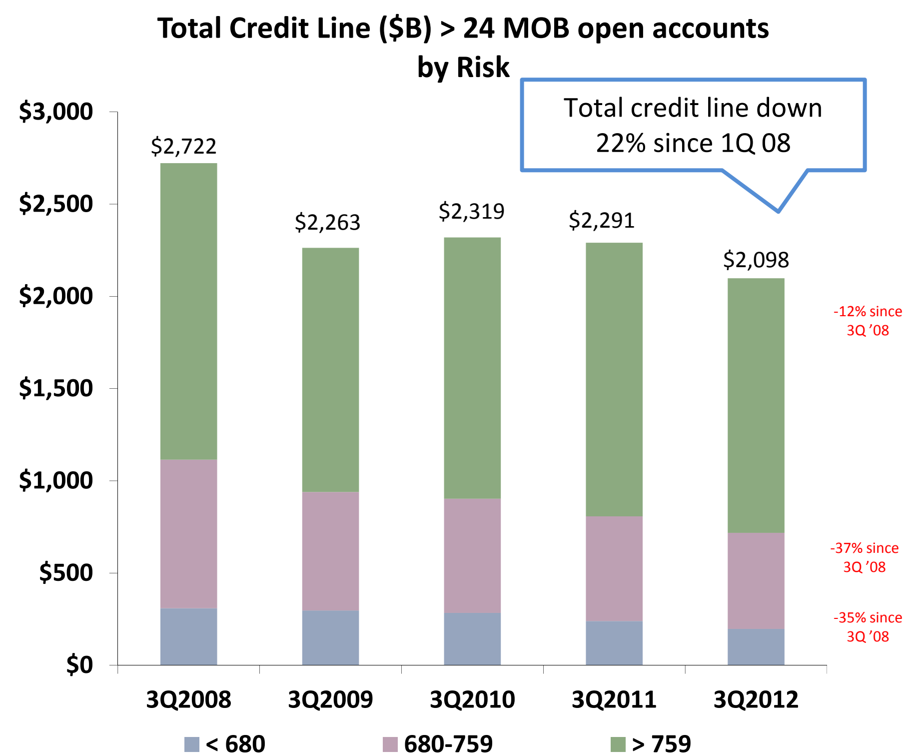


	3Q2008	3Q2009	3Q2010	3Q2011	3Q2012
Avg. Line Per < 24 MOB Account	$6,358	$6,190	$5,890	$5,481	$5,460

	3Q2008	3Q2009	3Q2010	3Q2011	3Q2012
Avg. Line Per > 24 MOB Account	$10,717	$10,256	$9,987	$10,081	$9,995

Total Open Credit Line across risk and vintage is down significantly



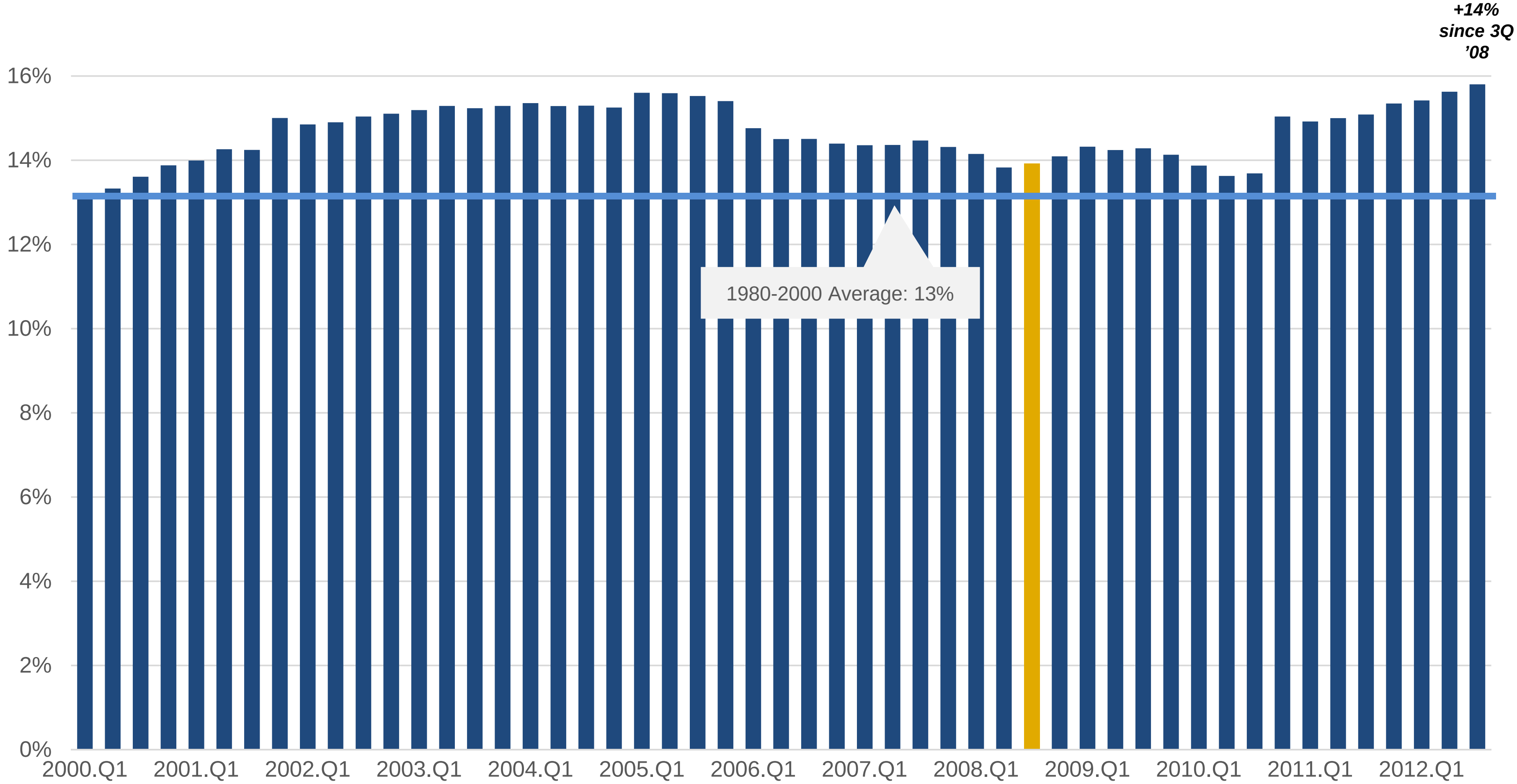


	3Q2008	3Q2009	3Q2010	3Q2011	3Q2012
% with Risk Score < 680	15.9%	14.2%	9.6%	9.6%	10.3%
% with Risk Score 680-759	33.7%	31.1%	28.4%	28.3%	29.0%
% with Risk Score >759	50.4%	54.7%	62.1%	62.1%	60.7%

	3Q2008	3Q2009	3Q2010	3Q2011	3Q2012
% with Risk Score < 680	11.3%	13.1%	12.2%	10.5%	9.4%
% with Risk Score 680-759	29.6%	28.4%	26.7%	24.8%	24.8%
% with Risk Score >759	59.0%	58.5%	61.1%	64.8%	65.8%

Non-Revolving Consumer Credit is Up

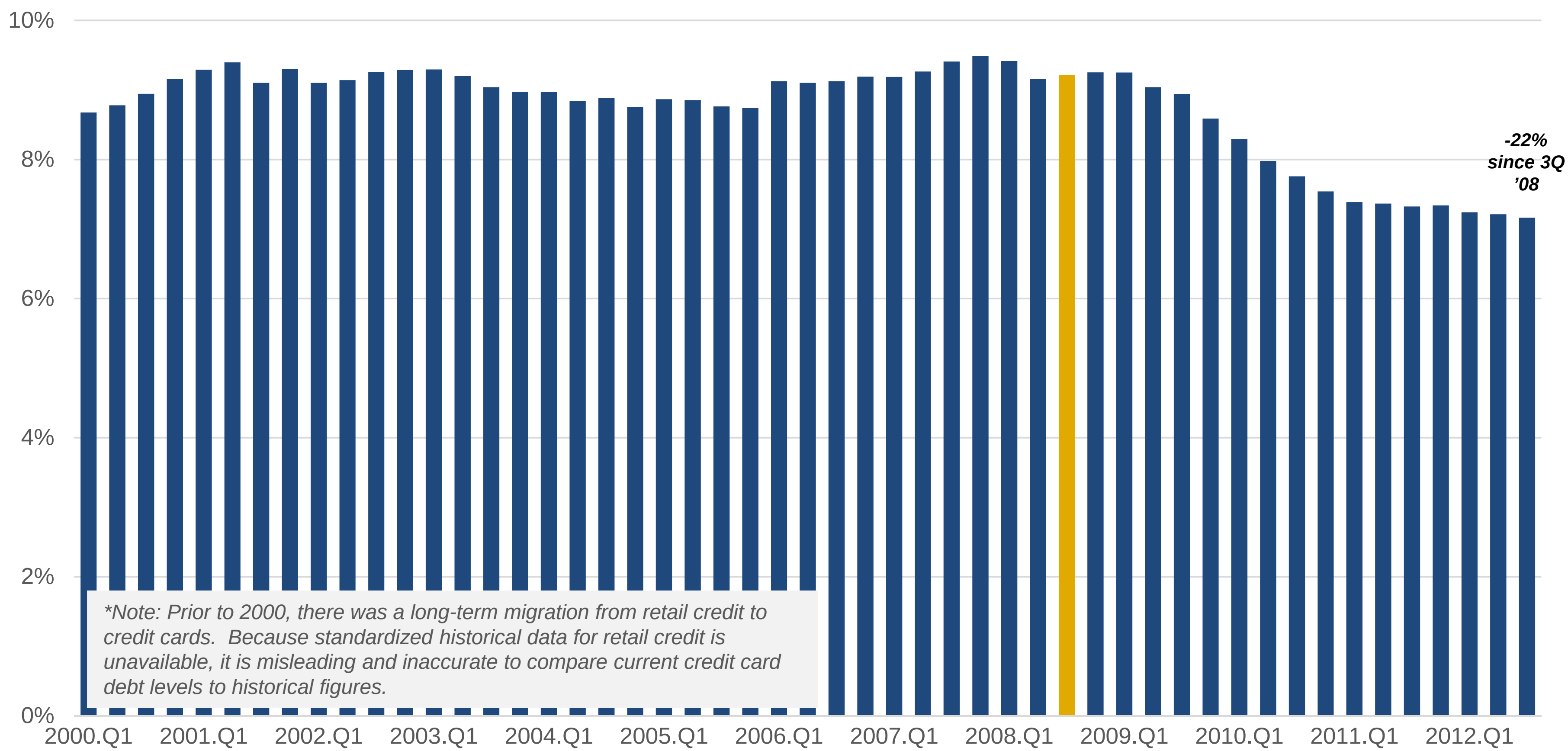
Non-Revolving Consumer Credit* as a Percent of Disposable Income



*Includes automobile loans and all other loans non-revolving credit, e.g., loans for mobile homes, education, boats, trailers, or vacations.
Source: Federal Reserve, Bureau of Economic Analysis

Revolving Consumer Credit is Down

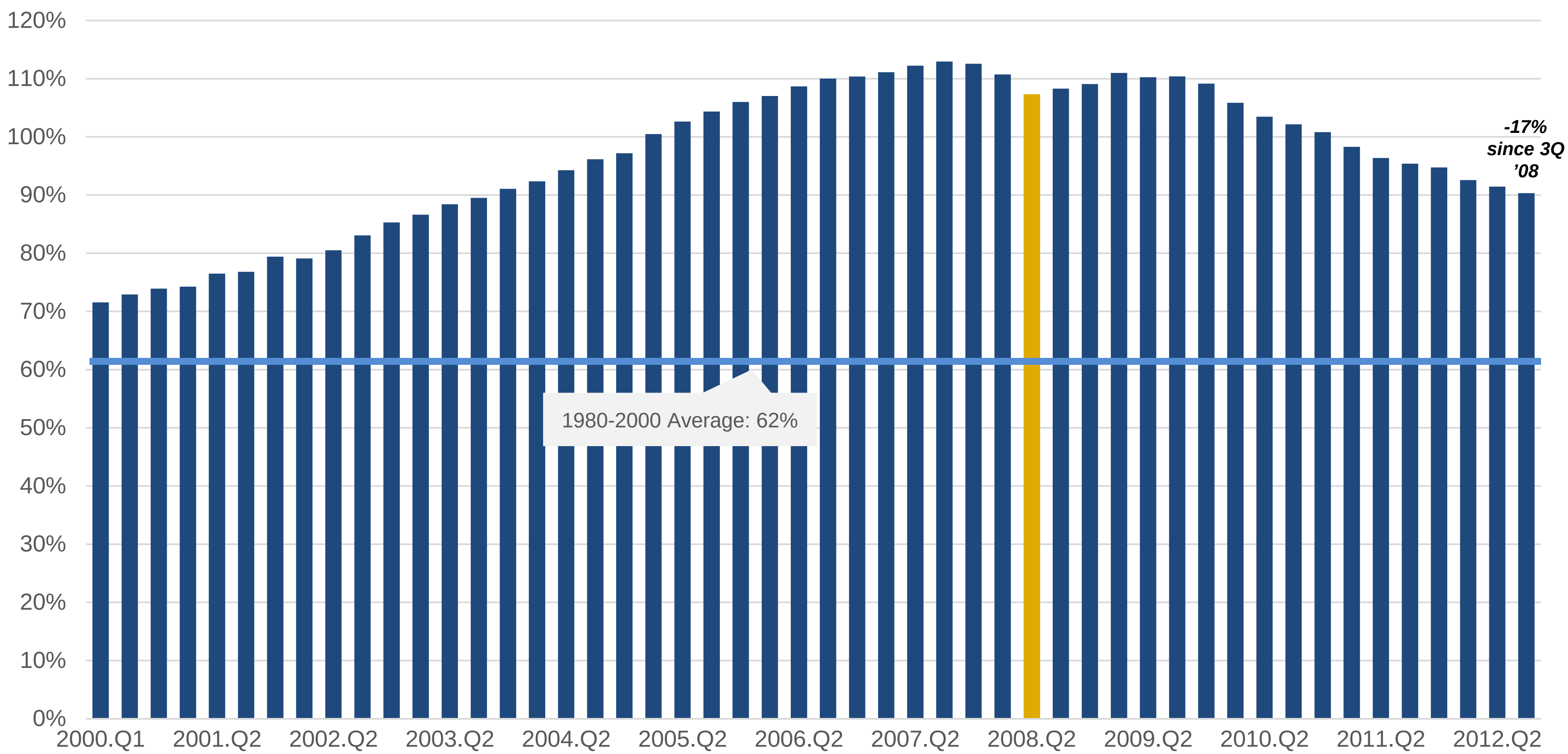
Revolving Consumer Credit as a Percent of Disposable Income



Source: Federal Reserve, Bureau of Economic Analysis

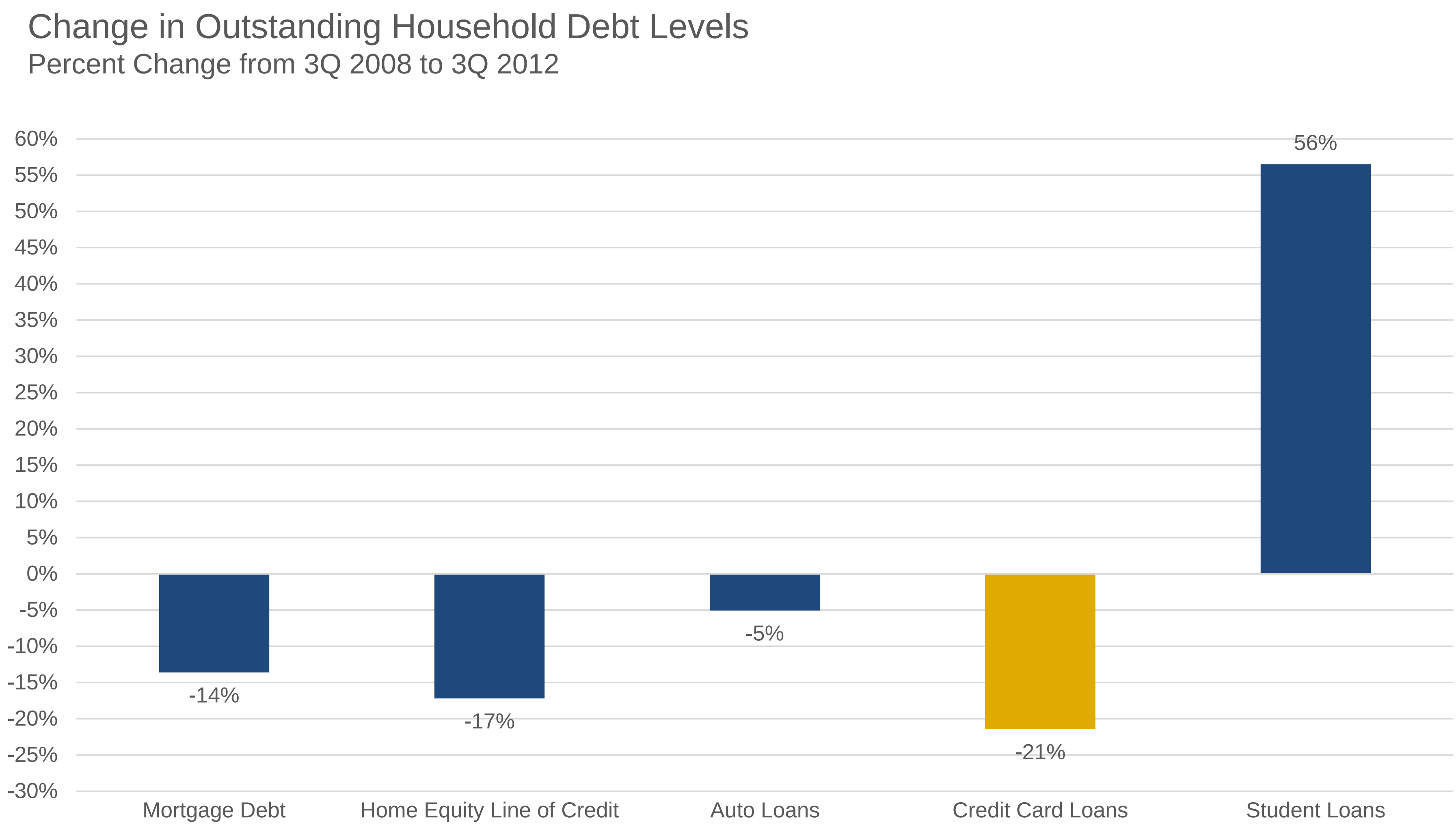
Mortgage Credit Bubble

Mortgage Credit as a Percent of Disposable Income



Source: Federal Reserve, Bureau of Economic Analysis

Credit card debt fell rapidly compared with other forms of consumer debt.



Source: Federal Reserve Bank of New York—Report on Household Debt & Credit

Timeline of Change in Credit Card Laws

May 2, 2008	Board proposes regulation prohibiting certain practices, including restrictions on rate increases on existing balances. Advance notice of increases on new balances required. http://federalreserve.gov/newsevents/press/bcreg/20080502a.htm
December 18, 2008	Board adopts final regulation addressing credit card practices to be effective July 2010. http://federalreserve.gov/newsevents/press/bcreg/20081218a.htm
January 22, 2009	CARD Act (HR 627) introduced in House.
May 22, 2009	President signs CARD Act.
August 10, 2009	Critical CARD Act provisions go into effect: • Requirement to provide 45-day advance notice of rate increases or other significant change. • Requirement to provide cardholders with opportunity to opt-out of certain changes, including rate changes, and pay existing balance off at original rate. • Prohibition against considering payments to be late unless periodic statements mailed at least 21 days prior to payment due date.
February 10, 2010	Bulk of remaining provisions go into effect, including further restrictions on rate increases; opt in requirements for over-the-limit fees; and payment applications to balances requirements.
August 10, 2010	Remaining provisions go into effect: • 6 month look-back for increased interest rates • “Reasonable” penalty fees

Attachment A