Credit Card Clarity: CARD Act Reform Works

EXECUTIVE SUMMARY

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New credit card rules mandated by the Credit CARD Act of 2009 have resulted in significantly greater price transparency for consumers. This reverses a trend of increasingly unclear pricing that for years misled consumers into believing they would pay less for credit card debt than was true. Inaccurate pricing information likely caused many borrowers to take on more credit card debt than they otherwise would have.

The difference between the stated rate on credit card solicitations and the rate consumers actually paid widened to unprecedented levels by 2004 and stayed at those levels through 2008. This difference narrowed markedly in the wake of reform, with stated prices on solicitations moving much closer to actual prices. This study also finds that, in the year since the CARD Act’s implementation, actual prices have remained stable and available credit has not tightened beyond what would be expected from the economic downturn. Because price transparency fosters competition, the long-term effect of the CARD Act is likely to be lower costs for consumers.

Key Findings

- New rules have reduced the difference between stated rates and actual rates paid on credit cards, resulting in more transparent pricing. An estimated $12.1 billion in previously obscure yearly charges are now stated more clearly in credit card offers.
- Once the economic downturn is taken into account, the actual rate consumers have paid on credit card debt has remained level.
- Direct-mail offers have been extended at a volume and pace consistent with economic conditions.

Discussion

This report’s findings refute negative claims by the credit card industry that new credit card rules have restricted access to consumer credit and raised its cost. These claims rely on limited data that do not accurately capture the cost or availability of credit extended to consumers. This study uses multiple data sets and methods and consistently finds that the CARD Act has not caused prices to rise or credit to constrict.

Critics of reform often argue that common-sense rules and oversight inevitably lead to significant and negative “unintended consequences” for consumers. The on-going crisis in the mortgage market is an example of the harm the absence of common-sense rules brings. This report shows that, prior to the CARD act, the credit card industry was another.

Earlier CRL research has shown that, in the absence of basic rules, credit card issuers relied on confusing, complex pricing to charge more than consumers expected or understood.
Summary of Analysis

CRL examined five sets of data for this study. The first two, from the Federal Reserve Board, track credit card rates, both as stated on solicitations and as actually paid by consumers. The discrepancy between the two measurements narrowed after the CARD Act passed, with stated rates moving closer to actual rates paid.

The third source of information came from “Call Reports,” which are statements of income and financial condition that commercial banks file quarterly with bank regulators. Analysis of this data provided further evidence that prices have become more transparent.

The fourth set, a private data base from Mintel Comperemedia, tracked the number of mail solicitations over time. It showed that, once adjusted for the downturn, the number of solicitations has held steady or even risen.

The fifth, from the website CreditCards.com, compared rates offered on all credit cards to those offered on business credit cards, which are not subject to the CARD Act. The effective rate on business cards increased relative to consumer cards, further evidence that reform did not cause price increases.

Because price transparency fosters competition, the long-term effect of the CARD Act is likely to be lower costs for consumers.
Conclusion

Contrary to credit card industry claims, the new rules have not caused prices to increase or access to credit to fall. Instead, they have benefitted the public by making credit card pricing significantly more transparent. Price transparency is likely to lower costs long term by spurring competition and making it harder for issuers to manipulate or arbitrarily raise prices.

About the Center for Responsible Lending

The Center for Responsible Lending is a nonprofit, nonpartisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is affiliated with Self-Help, one of the nation's largest community development financial institutions.

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