

The Consumer Credit Card Market



Message from the Acting Director

Credit cards are one of the most commonly-held and widely-used financial products in America — over 175 million Americans hold at least one credit card. During the COVID-19 pandemic, credit cards played a vital role as both a source of credit in emergencies and a payment method as more transactions occurred online.



As the fifth biennial report to Congress on the credit card market, this report details how swift actions by both the public and private sectors likely impacted how many consumers used their credit cards and managed their debts during the pandemic. To address hardships caused by COVID-19, the Federal government provided consumers direct relief by issuing a series of economic impact payments, providing enhanced unemployment benefits, suspending student loan payments and interest accrual for federally held loans, offering mortgage forbearance, and enacting a moratorium on evictions. At the same time, credit card issuers provided voluntary relief to consumers by offering payment deferral and fee waivers.

Supported by these efforts, this report finds that the decline in credit card debt during the pandemic was unprecedented in speed and magnitude. Measures of consumer stress, such as late payment incidence and the share of accounts delinquent, hit record lows.

This report also highlights areas in the credit card market that may entail risks for consumers such as system deficiencies related to implementing relief programs and automatic payment processes. The Bureau continues to monitor indicators of credit card use, cost, and availability to identify potential for consumer harm, as well as study the impact of new, innovative products.

Our credit card market report is intended to present the latest research on this vital market to consumers, issuers, and policymakers. As many consumers, particularly those with non-prime credit scores, still face numerous hardships due to COVID-19, this report remains critical. The Bureau will carry out its mission in ensuring this market continues to benefit all participants during these times of heightened uncertainty.

Sincerely,

David K. Uejio

David Uejio

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Executive summary

Credit cards are central to the financial lives of over 175 million American consumers. Over the last few years and through 2019, the credit card market, the largest U.S. consumer lending market measured by number of users, continued to grow in almost all measures until suddenly reversing course in March 2020. Despite macroeconomic shocks to the financial system, credit card market conditions remain relatively stable at the time of this report writing, with that stability likely supported by robust fiscal measures, lower consumer discretionary spending, and voluntary industry relief programs.

The COVID-19 pandemic significantly impacted how many consumers used and interacted with credit cards. Far fewer consumers applied for new credit cards in 2020 than the year prior. During the pandemic, existing cardholders paid off the highest share of their credit card debt in recent years. Additionally, late payment and default rates fell to historic lows, most notably for consumers with below-prime scores.

At the same time, credit cards continued to play a vital role as both a payment method and source of credit. Consumers still used their cards to facilitate transactions, smooth consumption, and earn rewards. As physical stores closed and a greater share of commerce was transacted digitally, cardholders benefited from the consumer protections afforded to credit cards such as limitations on liability and enhanced security.

In response to pandemic-related hardship, issuers provided a considerable number of payment deferrals and fee waivers to their cardholders in 2020. However, consumers calling their credit card issuers often faced long wait times to access these relief programs. Additionally, complaints submitted to the Bureau regarding credit cards spiked in the second quarter of 2020 and

remained elevated throughout the year.¹ Overall reported satisfaction with credit cards issuers fell significantly during the pandemic but remained higher than post-Great Recession levels.² Despite these indicators of lower consumer satisfaction, credit card issuers continue to generate profitable annual returns consistent with historic levels relative to other market lending activities even with an initial decline during the first half of 2020.³

In 2019 and 2020, innovation continued to reshape the credit card market for both users and providers. New providers, including large and small financial institutions as well as startup and mainstream technology companies have entered—or are in the process of entering—the market with competing products, features, and methods for issuing credit cards.⁴

This executive summary provides some background for the report, then summarizes key findings.

BACKGROUND

In 2009, Congress passed the Credit Card Accountability Responsibility and Disclosure Act (CARD Act or Act).⁵ The Act made substantial changes to the credit card market. The CARD Act mandated new disclosures and underwriting standards, curbed certain fees, and restricted interest rate increases on existing balances. Among the CARD Act's many provisions was a

¹ Bureau of Consumer Fin. Prot., *Consumer Response Annual Report*, at 39 (Mar. 2021), https://files.consumerfinance.gov/f/documents/cfpb_2020-consumer-response-annual-report_03-2021.pdf. Billing disputes remain the largest complaint category.

² See Press Release, J.D. Power, *Customers Losing Faith in Credit Card Issuers as COVID-19 Pandemic Lingers*, J.D. Power Finds (Aug. 20, 2020), <https://www.jdpower.com/business/press-releases/2020-us-credit-card-satisfaction-study>.

³ Bd. of Governors for the Fed. Rsrv. Sys., *Report to the Congress on the Profitability of Credit Card Operations of Depository Institutions* (July 2021), <https://www.federalreserve.gov/publications/files/ccprofit2021.pdf>.

⁴ Reference in this report to any specific commercial product, service, firm, or corporation name is for the information and convenience of the public and does not constitute endorsement or recommendation by the Bureau.

⁵ The Act superseded a number of earlier regulations that had been finalized, but had not yet become effective, by the Office of Thrift Supervision (OTS), the National Credit Union Administration (NCUA), and the Board of Governors of the Federal Reserve System. Those earlier rules were announced in December of 2008 and published in the Federal Register the following month. See 74 FR 5244 (Jan. 29, 2009); 74 FR 5498 (Jan. 29, 2009). The rules were withdrawn in light of the CARD Act. See 75 FR 7657, 75 FR 7925 (Feb. 22, 2010).

requirement that the Board of Governors of the Federal Reserve System (Board) report every two years on the state of the consumer credit card market. With the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) in 2010, that requirement transferred to the Bureau of Consumer Financial Protection (Bureau) alongside broader responsibility for administering most of the CARD Act's provisions. This is the fifth report published pursuant to that obligation, building on prior reports published by the Bureau in 2013, 2015, 2017, and 2019.⁶

The CARD Act was enacted over ten years ago.⁷ Since its passage, researchers, including the Bureau, have studied the effects of the CARD Act on the cost and availability of credit to consumers. This year the Bureau conducted a review of rules implementing the Act per section 610 of the Regulatory Flexibility Act,⁸ and the Bureau expects to release its determination this fall.

THE 2021 REPORT

This report continues the approach of the Bureau's previous reports. The Bureau revisits similar baseline indicators to track key market developments and trends. It also revisits some in-depth topics to assess how the market has changed. For example, the current report updates the deferred interest analysis last conducted in the 2017 Report. The Bureau also discusses the

⁶ See Bureau of Consumer Fin. Prot., *Card Act Report* (Oct. 1, 2013) (2013 Report), http://files.consumerfinance.gov/f/201309_cfpb_card-act-report.pdf; Bureau of Consumer Fin. Prot., *The Consumer Credit Card Market* (Dec. 2015) (2015 Report), http://files.consumerfinance.gov/f/201512_cfpb_report-the-consumer-credit-card-market.pdf; Bureau of Consumer Fin. Prot., *The Consumer Credit Card Market* (Dec. 2017) (2017 Report), https://files.consumerfinance.gov/f/documents/cfpb_consumer-credit-card-market-report_2017.pdf; Consumer Fin. Prot., *The Consumer Credit Card Market* (Aug. 2010) (2019 Report), https://files.consumerfinance.gov/f/documents/cfpb_consumer-credit-card-market-report_2019.pdf. The Bureau also held a conference in 2011 in which numerous market stakeholders contributed information and perspective on developments in the credit card market. See Press Release, Bureau of Consumer Fin. Prot., *CFPB Launches Public Inquiry on the Impact of the Card Act* (Dec. 19, 2012), <https://www.consumerfinance.gov/about-us/newsroom/consumer-financial-protection-bureau-launches-public-inquiry-on-the-impact-of-the-card-act>.

⁷ Credit Card Accountability Responsibility and Disclosure Act of 2009, Public Law 111-24, 123 Stat. 1734 (2009).

⁸ Public Law 96-354, 94 Stat. 1164 (1980) (5 U.S.C. 601 *et seq.*).

effects of COVID-19 throughout the report and specifically adds a section about its impact on credit card issuers and their responses to consumers' needs.

Below is a summary of the core findings from each section of the report:

- Total outstanding credit card balances continued to grow and peaked in 2019 at \$926 billion, but, by the second quarter of 2020, consumers reduced card balances to \$811 billion, the largest six-month reduction in U.S. history. At the end of 2020, debt crept back up to \$825 billion. The share of accounts with a revolving balance declined in 2020, and more consumers paid down their card debt in 2020. Utilization rates declined across credit score tiers, and the share of consumers with below-prime scores who used 90 percent or more of their general purpose credit line fell to record lows. A declining share of consumers were late in making their payments as of the second quarter of 2020.
- The total cost of credit (TCC) on revolving accounts continued to increase through 2019 but declined modestly in 2020. The 2020 declines in TCC for general purpose and private label cards were 0.8 and 1.5 percentage points, respectively. Recent TCC decreases are largely a result of decreases in the indices underlying variable rates, such as the prime rate, and lower overall fees assessed. The Bureau estimates that the five rate decreases by the Federal Reserve from early-2019 through 2020 led to a cumulative roughly \$18 billion that credit card borrowers did not pay over that period. Accounts held by consumers with deep subprime credit scores saw the greatest drop in fee-to-balance ratios in 2020.
- Most measures of credit card availability decreased in 2020 after continued growth since the Great Recession. Application volume for credit cards decreased sharply in 2020 from its peak level in 2019, likely due to the interaction between reduced acquisition efforts by issuers and a decline in consumer demand. Approval rates also declined modestly in 2020. Driven by these contractions in both supply and demand, annual growth in the number of credit card accounts opened and the amount of credit line on new accounts reached its lowest level since 2013. Total credit line across all consumer credit cards fell slightly in 2020 from a post-Great Recession high of over \$4.5 trillion in 2019 but remained above 2018 levels. Existing accounts held by consumers with subprime and deep subprime scores saw

the greatest constriction in available line.⁹ While credit line decrease (CLD) incidence increased for consumers with below-prime credit scores, issuers did not substantially deviate from previous line management trends during the pandemic.

- Digital engagement is growing consistently across all age groups and nearly every platform type. The share of consumers electing to receive statements digitally (e-statements) rather than by mail is continuing to increase, though the pace of adoption tapered in 2020. E-statement adoption has been surpassed by mobile app adoption as a method to engage with issuers.
- Many consumers received some form of relief on their credit card debts from their credit card providers during the pandemic. The Bureau estimates that over 25 million consumer credit card accounts representing approximately \$68 billion in outstanding credit card debt entered relief programs in 2020, figures vastly higher than in prior years. The Bureau also estimates that surveyed issuers' cardholders were able to forgo principal payments of anywhere from \$0.5 billion to \$1.5 billion against their credit card debts in 2020 due to these relief programs. Entries into payment deferral relief were spread fairly evenly across credit score tiers, but accounts held by consumers with lower scores received payment deferrals at the highest rate.
- Since the 2019 Report, issuers have lowered the range of their daily limits on debt collection phone calls for delinquent credit card accounts while increasing the use of emails in collection. However, survey respondents reported that, on average, only 31.9 percent of accounts that received email clicked open their emails.
- Innovations aimed at expanding credit access, particularly for less creditworthy borrowers, continued to grow in both the number of offerings and users. Buy Now, Pay Later (BNPL) products are offering a new form of purchasing with payments spread out over time, typically in four installments. Credit card issuers are offering similar plans, providing consumers more ways to manage their cash flow.

⁹ These trends of constricting credit availability do not appear to continue in 2021. See Corinne Candilis & Ryan Sandler, *Credit card limits are rising for most groups after stagnating during the pandemic*, Bureau of Consumer Fin. Prot. (Aug. 11, 2021), <https://www.consumerfinance.gov/about-us/blog/credit-card-limits-rising-for-most-groups-after-stagnating-during-pandemic/>.

CURRENT AND FUTURE BUREAU WORK IN THIS MARKET

Over the past two years, the Bureau has been actively engaged in the credit card market and is taking measures to address regulatory uncertainty, identify compliance deficiencies as well as research new emerging technologies and products to ensure the adequacy of consumer protection and a transparent and competitive marketplace for all consumers.

- In June of 2020, the Bureau released a Notice of Proposed Rulemaking (NPRM) concerning the anticipated discontinuation of LIBOR,¹⁰ including proposing examples of replacement indices that satisfy Regulation Z requirements.¹¹ As proposed, the rule would allow credit card issuers to replace the LIBOR index used in setting variable rates on many existing accounts with a replacement index before LIBOR becomes unavailable, if certain conditions were met. To the Bureau's knowledge, there are millions of consumer credit card accounts indexed on LIBOR. The proposed rulemaking should help credit card providers transition those affected accounts to a replacement index in an orderly manner. The Bureau expects to issue a final rule in January 2022.¹²
- Through the Prioritized Assessments conducted in May of 2020, the Bureau found that credit card issuers generally provided some form of relief to consumers experiencing hardships as a result of COVID-19, such as "skip-a-pay" or payment deferrals for one to six months, with or without interest accrual.¹³ Other relief options included lowered interest rates, waivers of annual and other fees, and extended deferred interest periods for credit card accounts that had already received deferred interest. However, the Bureau also identified certain issues that may raise the risk of consumer harm such as system

¹⁰ Press Release, Bureau of Consumer Fin. Prot., *CFPB Takes Steps to Facilitate LIBOR Transition* (June 4, 2020), <https://www.consumerfinance.gov/about-us/newsroom/cfpb-facilitates-libor-transition/>.

¹¹ 85 FR 36938 (June 18, 2020), <https://www.govinfo.gov/content/pkg/FR-2020-06-18/pdf/2020-12239.pdf>.

¹² Office of Info. & Regulatory Affairs, *Amendments to Regulation Z to Facilitate Transition From LIBOR* (2021), <https://www.reginfo.gov/public/do/eAgendaViewRule?pubId=202104&RIN=3170-AB01>.

¹³ Bureau of Consumer Fin. Prot., *Supervisory Highlights COVID-19 Prioritized Assessments Special Edition, Issue 23* (Jan. 2021), https://files.consumerfinance.gov/f/documents/cfpb_supervisory-highlights_issue-23_2021-01.pdf.

deficiencies related to implementing relief programs and automatic payment processes, as well as delays in timely delivery of certain disclosures and responding to billing disputes.

- The Bureau continues to monitor the expansion of credit access, especially when new and innovative technologies are used. Credit access expansion can be positive but should be done responsibly and in a way that is understandable to consumers. Consumers will be better served if the use of such technologies are clearly explained in case of adverse actions.¹⁴ Forms of point-of-sale financing, such as BNPL products, offer not only convenience but a new way of financing for many consumers. The Bureau encourages all providers in this space to take steps to make sure users of these products are adequately informed of the risks of such products.
- The Bureau encourages study into the effects of certain lending practices and their impact on credit scores, particularly for those consumers with non-prime credit scores. Practices such as credit line decreases (CLD) and account closure not only reduce consumers' access to credit but also potentially inflate their credit utilization rate. This could adversely affect consumers' credit scores without any other changes in their behavior. Additionally, over the past decade, a declining share of credit card issuers reported information on a borrower's actual payment amount to nationwide consumer reporting agencies, which may have implications for consumer access to credit.
- As indicated in its January 28, 2021 announcement,¹⁵ the Bureau intends to take bold and swift action on racial equity in financial services, including in the areas of credit card marketing and lending. Existing data available to the Bureau do not allow the Bureau to fully examine the disparity in use, cost, and availability of credit cards by racial groups. The Bureau intends to explore options to incorporate racial data in its data sources to inform its future work.

¹⁴ Bureau of Consumer Fin. Prot., *Tech Sprint on Electronic Disclosures of Adverse Action Notices* (Oct. 2020), <https://www.consumerfinance.gov/rules-policy/innovation/cfpb-tech-sprints/electronic-disclosures-tech-sprint/>.

¹⁵ Bureau of Consumer Fin. Prot., *The Bureau is taking much-needed action to protect consumers, particularly the most economically vulnerable* (Jan. 28, 2021), <https://www.consumerfinance.gov/about-us/blog/the-bureau-is-taking-much-needed-action-to-protect-consumers-particularly-the-most-economically-vulnerable/>.

- As described in the new technical specifications issued on August 20, 2021, the Bureau’s “Collect” website will be the mandatory vehicle issuers must use to submit credit card agreements and their associated data in 2022 and beyond. Not only does Collect provide a simplified submission process and robust audit trail for issuers, it will allow the Bureau and other organizations to expand their current research on credit card agreements.¹⁶

¹⁶ Bureau of Consumer Fin. Prot., *Technical Specifications for Credit Card Agreement and Data Submission Required under TILA and the CARD Act (Regulation Z)* (Aug. 20, 2021), https://files.consumerfinance.gov/f/documents/cfpb_tech-specs-credit-card-agreement-data-submissions_final-rule_2021-08.pdf.

1. Introduction

1.1 Review mandate

The CARD Act became law on May 22, 2009. Its stated purpose was to “establish fair and transparent practices related to the extension of credit” in the credit card marketplace.¹⁷ The Dodd-Frank Act, which became law on July 21, 2010, established the Bureau and, one year later, transferred authority and responsibility for implementing and enforcing the CARD Act from the Board to the Bureau.

Among those responsibilities Congress originally assigned the Board was a mandate to “review, within the limits of its existing resources available for reporting purposes, [the] consumer credit card market [every two years].”¹⁸ In 2012, the Board and the Bureau agreed that responsibility for the review passed to the Bureau under the terms of the Dodd-Frank Act. This report represents the Bureau’s fifth mandated biennial report on its review of the consumer credit card market, following the Bureau’s reports on the market in 2013, 2015, 2017, and 2019.¹⁹

¹⁷ See *supra* note 5, at 1. A full summary of the CARD Act rules implemented by the Board is at pages 11 through 13 of the Bureau’s 2013 Report. See 2013 Report, *supra* note 6. The Bureau subsequently reissued these rules without material changes in December 2011. The Bureau later revised one CARD Act rule issued by the Board. On November 7, 2012, the Bureau proposed selected revisions to the ability-to-pay rules, which were intended to address a number of unintended impacts of the prior rule on consumers who did not work outside the home. The final rule implementing this revision became effective on May 3, 2013, with an associated compliance deadline of November 4, 2013. See 78 FR 25818 (May 3, 2013). On March 22, 2013, the Bureau finalized another revision to the CARD Act rules in response to a federal court ruling in 2012 that had granted a preliminary injunction to block a part of the Board’s 2011 rule from taking effect. The final rule became effective March 28, 2013. See 78 FR 18795 (Mar. 28, 2013). See also Press Release, Bureau of Consumer Fin. Prot., *CFPB Finalizes Credit CARD Act Rule* (Mar. 22, 2013), <https://www.consumerfinance.gov/about-us/newsroom/consumer-financial-protection-bureau-finalizes-credit-card-act-rule>.

¹⁸ 15 U.S.C. § 1616(a) (2012).

¹⁹ See generally, *supra* note 6.

1.2 Report scope

This report fulfills Congress’s directive to review the consumer credit card market in two overlapping ways. First, it responds to the general congressional mandate in section 502 of the CARD Act to review and report on the “consumer credit card market.” Second, it addresses “within the limits of [the Bureau’s] existing resources available for reporting purposes” topics explicitly enumerated by Congress for inclusion in this review, including:

1. the terms of credit card agreements and the practices of credit card issuers;
2. the effectiveness of disclosure of terms, fees, and other expenses of credit card plans;
3. the adequacy of protections against unfair or deceptive acts or practices relating to credit card plans; and
4. whether or not, and to what extent, the implementation of this Act and the amendments made by this Act have affected:
 - a) the cost and availability of credit, particularly with respect to non-prime borrowers;
 - b) the safety and soundness of credit card issuers;
 - c) the use of risk-based pricing; or
 - d) credit card product innovation.²⁰

The CARD Act also requires the Bureau to “solicit comment from consumers, credit card issuers, and other interested parties” in connection with its review.²¹ As in past years, the Bureau has done so through a Request for Information (RFI) published in the Federal Register, and the

²⁰ 15 U.S.C. § 1616(a) (2012). While this report presents information which may be relevant to assessments of safety and soundness issues relating to credit card issuers, the Bureau does not produce any further analysis on this subject in this report. The prudential regulators (*e.g.*, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the National Credit Union Administration) have the primary responsibility for monitoring the safety and soundness of financial institutions.

²¹ 15 U.S.C. § 1616(b) (2012).

Bureau discusses specific evidence or arguments provided by commenters throughout the report.²²

1.3 Methodology

This section reviews several aspects of the Bureau’s general methodology in compiling this report. Methodological approaches used in specific sections of this report are explained in more detail in those sections.

1.3.1 Data sources

This report leverages several data sources. It primarily relies on sources already held by the Bureau, by other Federal regulators, and by industry stakeholders. All results reported from data throughout this report aggregate results from multiple industry participants.²³

Sources include the following:

1. Data from the Bureau’s Consumer Credit Panel (CCP), which is a comprehensive, national 1-in-48 longitudinal sample of de-identified credit records maintained by one of the three nationwide consumer reporting agencies. Other Bureau products, such as the Consumer Credit Trends reports, rely on these data.²⁴ These data contain no personal identifiers, such as name, address, or Social Security number.

²² Request for Information Regarding Consumer Credit Card Market, 85 FR 53299 (Aug. 28, 2020). The RFI also separately solicited comment on the Bureau’s review of the CARD Act consistent with section 610 of the Regulatory Flexibility Act (RFA). Public Law 96-354, 94 Stat. 1164 (1980). That review is out of the scope of this report.

²³ No results in this report can be used to identify the outcomes or practices of individual entities. At the same time, outcomes and patterns observed in the market as a whole may not be true for (or may only apply in a limited degree to) any particular industry player.

²⁴ See Bureau of Consumer Fin. Prot., *Consumer Credit Trends*, <https://www.consumerfinance.gov/data-research/consumer-credit-trends/> (last visited Jan. 11, 2021). For CCP research related to COVID-19, see also Ryan Sandler & Judith Ricks, *Special issue brief: The early effects of the COVID-19 pandemic on consumer credit*,

2. De-identified information that the Board collects as part of its “Y-14M” (Y-14) data collection. The Board collects these data monthly from bank holding companies that have total consolidated assets exceeding \$50 billion.²⁵ The Board shares with the Bureau data from Y-14 banks. The data received by the Bureau cover the period from the middle of 2012 through the present and accounted for just under 70 percent of outstanding balances on consumer credit cards as of year-end 2020.²⁶

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 does not include transaction-level data pertaining to consumer purchases. In addition, this study reports only aggregate measures and reveals no information about any specific issuer.

These data replace loan-level credit card collections that the Bureau previously collected.²⁷ The Bureau no longer requires or oversees the collection of any loan-level credit card data on an ongoing basis.

Bureau of Consumer Fin. Prot. (Aug. 31, 2020), <https://www.consumerfinance.gov/data-research/research-reports/special-issue-brief-early-effects-covid-19-pandemic-on-consumer-credit/>; Éva Nagypál, *Special issue brief: The Recovery of Credit Applications to Pre-Pandemic Levels*, Bureau of Consumer Fin. Prot. (July 27, 2021), https://files.consumerfinance.gov/f/documents/cfpb_recovery-of-credit-applications-pre-pandemic-levels-report-2021-07.pdf; and Ryan Sandler, *Delinquencies on credit accounts continue to be low despite the pandemic*, Bureau of Consumer Fin. Prot. Blog (June 16, 2021), <https://www.consumerfinance.gov/about-us/blog/delinquencies-on-credit-accounts-continue-to-be-low-despite-the-pandemic/>.

²⁵ See Bd. of Governors of the Fed. Rsrv. Sys., *Report Forms FR Y-14M*, <https://www.federalreserve.gov/apps/reportforms/reportdetail.aspx?sQoYJ+5BzDYnbIw+U9pka3sMtCMopzoV> (last visited Jan. 11, 2021) (for more information on the Y-14M collection).

²⁶ The Board has expanded the fields it collects from banks over time; therefore, some results reported below do not extend all the way back to 2012. Additionally, these data are periodically revised retroactively, and are therefore not fully static. These issuers represent a large portion of the market but are not necessarily representative of the portion of the market not covered by the data the Bureau receives. The remainder of the market, representing a substantial number of consumer credit cards, are outside the scope of the Y-14 data used by the Bureau because, among other reasons, they are issued by banks with assets of less than \$50 billion, or are issued by non-banks, such as credit unions. Results reported from Y-14 data throughout this report should be interpreted accordingly.

²⁷ See generally Bureau of Consumer Fin. Prot., *Sources and Uses of Data*, at 57-58 (Sept. 26, 2018), <https://www.consumerfinance.gov/data-research/research-reports/sources-and-uses-data-bureau-consumer-financial-protection/>.

3. Information provided in response to a series of data filing orders made to several industry participants, comprised of two distinct sets:²⁸
 - a) Data requested from a broad and diverse group of issuers to address a range of topics that neither CCP nor Y-14 data can address. This report refers to these data as Mass Market Issuer (MMI) data. These data cover application and approval volumes, rates, and channels, deferred interest, digital account servicing, certain aspects of the impact of COVID-19 on consumers and issuers, and loss mitigation policies and practices, including debt collection.
 - b) Data requested from a diverse group of specialized issuers. These summary data, which focus on basic indicators of usage and cost, in places supplement the Y-14 to allow for a broader or more detailed perspective into certain facets of the market than either the Y-14 or CCP allow. Where these data supplement Y-14 data, those data are collectively called “Y-14+”.²⁹
4. The CFPB’s Credit Card Agreement Database, an online database available to the public at <http://www.consumerfinance.gov/credit-cards/agreements>, was created pursuant to the CARD Act. It contains most credit card agreements available to consumers as of quarter’s end for each quarter from the third quarter of 2011 to the fourth quarter of 2014, and from the first quarter of 2016 to present.³⁰ After the fourth quarter of 2014, the Bureau temporarily suspended collection of agreements for one year to reduce burden while the Bureau developed a more streamlined and automated electronic submission system.³¹ Submission and publication resumed in the first quarter of 2016. Agreements in the second quarter of 2019 are incomplete due to technical submission issues at the Bureau, and

²⁸ The Bureau notes that many players in the credit card industry are also entities with which the Bureau has one or more institutional relationships, such as a research partnership or membership on a Bureau-convened body.

²⁹ As discussed in note 26 *supra*, the Y-14 data cover a large but not representative portion of the credit card market. The Y-14+ data cover a larger and more representative portion of the credit card market, but the remaining uncovered portion is still substantial, and the Y-14+ data should similarly not be considered representative of that uncovered portion.

³⁰ Credit card issuers are not required to submit any credit card agreements to the Bureau if the card issuer has fewer than 10,000 open credit card accounts as of the last business day of the calendar quarter. 12 CFR 1026.58(c)(5).

³¹ 80 FR 21153 (Apr. 17, 2015); 12 CFR 1026.58(g).

agreements in 2020 and 2021 may include omissions due to the Bureau's previous COVID-19 regulatory flexibility statement.³²

5. Responses to the RFI, which sought comment on all aspects of the review described in Section 1.2 above.³³ The RFI generated 11 comments.³⁴ That total includes six letters from trade associations representing credit card issuers and other market participants, two letters from individual issuers, one letter from an industry-side market participant, one letter from a consumer advocacy group, and one letter from a consumer.
6. Credit card complaints that consumers have submitted to the Bureau's Office of Consumer Response.³⁵
7. Commercially available data sources to which the Bureau subscribes that focus on the credit card industry, including mail volume monitoring reports, industry analyst reports, and data services and analytics from industry consultants.
8. Numerous public sources, including but not limited to Securities and Exchange Commission (SEC) filings, analyst reports, studies and data produced by other regulators, academic scholarship, and the trade press.
9. Other information gathered informally through Bureau market monitoring activities.

1.3.2 Credit scores

Throughout this report, the Bureau refers to consumer credit scores. Lenders use these scores to predict a consumer's relative likelihood of default compared to other consumers. Credit scores

³² Bureau of Consumer Fin. Prot., *Statement on Supervisory and Enforcement Practices Regarding Bureau Information Collections for Credit Card and Prepaid Account Issuers* (Mar. 26, 2020), https://files.consumerfinance.gov/f/documents/cfpb_data-collection-statement_covid-19_2020-03.pdf.

³³ 82 FR 13313 (Mar. 10, 2017).

³⁴ As noted in note 22 *supra*, the RFI also solicited comment on the Bureau's review of the CARD Act consistent with the RFA, which is out of the scope of this report. The count of comments above includes all responses to the RFI, including those that addressed that RFA review, as well as certain other comments which were removed due to privacy concerns.

³⁵ Bureau of Consumer Fin. Prot., *Consumer Complaint Database*, <https://www.consumerfinance.gov/data-research/consumer-complaints/> (last visited Aug. 18, 2021).

provided by major national consumer reporting agencies are used by most credit card issuers to determine consumers' eligibility for credit and to set pricing for credit lines.³⁶ Data relied upon in this report include widely-used, commercially-available credit scores.

There are two important limitations to the way the Bureau uses credit scores in this report. Different credit score models, while fundamentally similar, may include or exclude different data points or weight them differently. First, this means that data are aggregated on the basis of credit score even though not all consumer credit scores are computed using identical methodologies. Second, it means that, when reporting certain measures over longer time horizons, the introduction of new models and changes in the prevalence of various models complicates comparisons between different points in time. In some cases, one or both of those two issues could affect which "credit score tier" applies to a certain account or consumer. ("Credit score tiers" are defined further below). The Bureau believes that different credit scoring methodologies, over the time periods and set of market participants examined in this report, are sufficiently consistent that it remains informative and useful to report aggregated results and changes over time by credit score. The Bureau nevertheless proceeds with caution when assigning precision, beyond a reasonable degree, to certain results.

When reporting results by credit score in this report, scores are grouped into five tiers. This five-tier grouping aligns with the groupings used in the Bureau's 2017 and 2019 Reports on the credit card market and the Bureau's Consumer Credit Trends reporting, as well as other Bureau research and reports. Table 1 shows the distribution of adults, scored adults, and scored cardholders in each credit score tier.

TABLE 1: CREDIT SCORE RANGE SHARES AS OF Q4 2019 (CCP)

Credit score tiers	U.S. adult population	U.S. scored population	U.S. scored credit cardholding population
Superprime (scores of 720 or greater)	41%	54%	64%
Prime (scores from 660 to 719)	12%	16%	16%

³⁶ Section 7.1.1 discusses the increased reliance of some credit card lenders on data and/or scores other than those provided by the major national credit bureaus.

Near-prime (scores from 620 to 659)	6%	8%	8%
Subprime (scores from 580 to 619)	5%	7%	6%
Deep subprime (scores of 579 or less)	12%	16%	7%
Thin or stale score file	12%	-%	-%
Credit invisible ³⁷	11%	-%	-%

Credit scores in the CCP and Y-14 are refreshed regularly. Unless noted otherwise, accounts and consumers are classified into score tiers based on their credit score at that time. As a result, when analyzing trends over time within a particular credit score tier, the set of accounts or consumers in a tier changes over time. This fact is especially important to note given that many consumers experience changes in their credit score that are large enough to move them from one credit tier to another.³⁸

An additional note of caution in interpreting credit scores is warranted due to COVID-19. In past reports, the Bureau has noted a general trend of increase in consumer credit scores.³⁹ However, research suggests that the Coronavirus Aid, Relief, and Economic Security Act's (CARES Act) forbearance provisions, in combination with income support programs and reduced consumption during the pandemic, accelerated a decline in the share of borrowers with subprime credit scores.⁴⁰ This pronounced improvement in credit scores complicates analyses of credit measures using the above classifications during 2020.

³⁷ This estimate of the percentage of the U.S. adult population who are credit invisible is based on data from 2010. See Kenneth P. Brevoort, Philipp Grimm, & Michelle Kambara, *Data Point: Credit Invisibles*, Bureau of Consumer Fin. Prot., at 6 (May 2015), http://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf.

³⁸ See 2015 Report, *supra* note 6, at 53-55.

³⁹ See 2019 report, *supra* note 6, at 22.

⁴⁰ See Sarena Goodman, Geng Li, Alvaro Meza, & Lucas Nathe, *Developments in the Credit Score Distribution over 2020*, Bd. of Governors of the Fed. Rsrv. Sys. (Apr. 2021), <https://www.federalreserve.gov/econres/notes/feds-notes/developments-in-the-credit-score-distribution-over-2020-20210430.htm>.

1.3.3 Other definitions

This subsection defines certain additional terms used frequently throughout this report. This is not exhaustive of all remaining defined terms in this report; for example, other defined terms more particular to certain sections or subsections of this report are introduced in those sections or subsections.

Throughout most of this report, the term “general purpose credit card” refers to credit cards that can transact over a network accepted by a wide variety of merchants, including the Visa, Mastercard, American Express, and Discover networks. The term “private label” refers to cards that can only be used at one merchant or a small group of related merchants.⁴¹ In some instances, mainly in certain parts of Sections 4 and 5, the term “retail” refers to a combined category of private label cards and some network-branded cards that are managed by a business unit that specializes in retail credit cards.⁴²

There are many ways to take a snapshot of consumer credit card indebtedness. The Bureau relies on two of the most prevalent, using nominal figures unless otherwise indicated. The first one entails measuring the current amount owed by consumers on a specific date, regardless of where in any individual consumer’s billing cycle that date falls. Debt calculated in this manner is referred to as “outstandings.” For example, if one were to report the total amount owed by consumers on credit cards as of December 31, 2020, it would be referred to as outstandings.

The second method entails measuring the amount owed by consumers at the end of their billing cycles, regardless of whether those cycles fall on a certain date. The Bureau refers to debt calculated in this manner as “balances,” and in most cases as “cycle-ending balances.” For example, if one were to report the total amount owed by consumers at the end of their billing

⁴¹ Private label cards generally transact over a private network maintained by the issuer to which the merchant is granted access. Some cards can transact over both a private label network and a general purpose network. For example, a consumer may be issued a card that features a merchant’s brand as well as a general purpose network brand. When used at the merchant, the transaction may be routed over the issuer’s private network, but at other merchants the transaction is routed over the general purpose network. For the purposes of this report, those cards are considered to be general purpose credit cards except where explicitly noted otherwise.

⁴² Retail cards do not include network-branded cards that carry hotel or airline branding, even if those cards are managed by a business unit that specializes in retail credit cards.

cycles that concluded in December 2020, it would be referred to as cycle-ending balances and, for some accounts, would calculate balances as of, *e.g.*, the 10th of the month.

This report also uses the term “debt” to refer to both of these amounts interchangeably. Note also that consumer debt on credit cards (whether calculated as month-end outstandings or cycle-end balances) includes both “revolving” debt—the amount owed on accounts for which the balance was not paid in full by the immediately prior statement due date—and “transacting” debt—charges incurred on accounts for which the balance was paid in full by the immediately prior statement due date. While transacting accounts represent a large share of all credit card purchase volume, revolving accounts generally represent a large share of all credit card debt at any given point in time. More detail on revolving and transacting patterns is provided in the subsequent sections of this report.

Throughout this report, the Bureau refers to “COVID-19.” While a full recounting of the onset of COVID-19 is beyond the scope of this report, it is important to reiterate here both the speed and the breadth with which the pandemic took hold. Within a period spanning just a few weeks, from mid-March to early-April of 2020, the World Health Organization declared COVID-19 to be a pandemic;⁴³ the United States declared a nationwide emergency;⁴⁴ and most U.S. states and territories promulgated mandatory stay-at-home orders.⁴⁵ As described elsewhere in this report, this period was characterized by sharp declines of movements of persons and activities entailing person-to-person interaction across the United States, with sharp attendant economic consequences too broad and varied to recount in full here. In summary, however, the total number of employed persons in the country dropped from approximately 150 million to 130 million from February to April 2020,⁴⁶ and the total annualized rate of wage and salary

⁴³ See World Health Organization, *WHO Director-General’s opening remarks at the media briefing on COVID-19* (Mar. 11, 2020), <https://www.who.int/director-general/speeches/detail/who-director-general-s-opening-remarks-at-the-media-briefing-on-covid-19---11-march-2020>.

⁴⁴ See 85 FR 15337 (Mar. 18, 2020).

⁴⁵ See Moreland, Amanda, et. al., *Timing of State and Territorial COVID-19 Stay-at-home orders and changes in population movement*, CDC (Sep. 4, 2020), <https://www.cdc.gov/mmwr/volumes/69/wr/mm6935a2.htm>.

⁴⁶ Fed. Rsrv. Bank of St. Louis, *Total Nonfarm Payroll*, <https://fred.stlouisfed.org/series/PAYNSA> (last visited Aug. 18, 2021).

disbursements to all employees dropped from \$9.7 trillion to \$8.7 trillion,⁴⁷ accompanied by an even starker decline in the annualized rate of personal consumption expenditures, from \$14.9 trillion to \$12.1 trillion.⁴⁸

Except where otherwise and explicitly noted, all such references to “COVID-19” are used as shorthand for the period of economic crisis and broad social disruption beginning in 2020 associated with the onset of the COVID-19 pandemic, not the illness caused by the SARS-CoV-2 coronavirus. For example, the sentence “COVID-19 led to credit card issuers expanding their relief programs,” signifies that issuers expanded their relief programs in response to the economic crisis precipitated by the pandemic, not because of the direct impact of the illness on issuers. In contrast, the sentence “Fears of contracting the COVID-19 disease appear to have led to increased use of contactless payments by consumers,” does, in fact, refer directly to the impact of the pandemic on consumers.

Throughout this report, the Bureau refers to the “Great Recession,” which officially began in the final quarter of 2007 and ended in the second quarter of 2009.⁴⁹ The Bureau also refers to the “COVID-19 recession,” which officially began in February 2020 and concluded in April 2020.⁵⁰ Those references are generally used for convenience and should not be interpreted as a statement as to precisely when the recession began or concluded. Discussions of these time periods may also include broader commentary on economic conditions following the official trough in gross domestic product.

⁴⁷ Fed. Rsrv. Bank of St. Louis, *Compensation of Employees, Received: Wage and Salary Disbursements*, <https://fred.stlouisfed.org/series/A576RC1> (last visited Aug. 18, 2021).

⁴⁸ Fed. Rsrv. Bank of St. Louis, *Personal Consumption Expenditures*, <https://fred.stlouisfed.org/series/PCE> (last visited Aug. 18, 2021).

⁴⁹ Nat’l Bureau of Econ. Rsch., *Business Cycle Dating Committee Announcement September 20, 2010* (Sep. 20, 2010), <https://www.nber.org/news/business-cycle-dating-committee-announcement-september-20-2010>.

⁵⁰ Nat’l Bureau of Econ. Rsch., *Business Cycle Dating Committee Announcement July 19, 2021* (July 19, 2021), <https://www.nber.org/news/business-cycle-dating-committee-announcement-july-19-2021>.

1.3.4 Limitations

The limitations inherent to the Bureau’s methodology in this report are substantially similar to those inherent in the Bureau’s previous reports on the credit card market.⁵¹ Those limitations are restated here briefly.

First, while the Bureau would ideally like data and evidence that allows it to definitively identify the causes of certain outcomes, the data available generally do not allow it to do so. The Bureau cautions against interpreting factual observations in the study as definitively proving or disproving particular causal relationships. Correlations presented throughout this report do not necessarily indicate causation.

Second, each of the data sources the Bureau analyzes have particular limitations. Some sources are not a comprehensive view of the market; some are limited to the account level or the aggregate level; and some are purely qualitative. Not all data sources use consistent definitions or delineations or cover the same periods, products, or phenomena. To the extent possible, the Bureau mitigates these limitations. Every attempt is made to harmonize definitions and to identify those places where the Bureau is unable to do so.

⁵¹ See, in particular, the 2015 Report, *supra* note 6, at page 27.

2. Use of credit

To provide a foundation for analyses in subsequent sections, this section reviews market measures that cover several aspects of the consumer credit card market.

First, this section describes the prevalence of credit cards and the size of the market. By some measures, such as total credit card debt outstanding, the market has generally contracted over the course of the pandemic as consumers paid down balances, in part due to federal stimulus measures.⁵² By other indicators, such as the total number of open general purpose card accounts, the market has never been so expansive.

Second, this section looks at spending and repayment behavior. Some of these data point to potentially significant differences between the credit card debt held by consumers prior to the pandemic and the debt they hold today.

Last, this section reports on delinquency and charge-off rates. These remain below historic norms even as widely relied-upon macroeconomic indicators—like the unemployment rate—have spiked and remain elevated relative to pre-pandemic periods.

2.1 Product prevalence

The Bureau estimates that 181 million of the 258 million adults in the United States (70 percent) had a credit card account in their name as of the end of 2020.⁵³ Around 90 million consumers

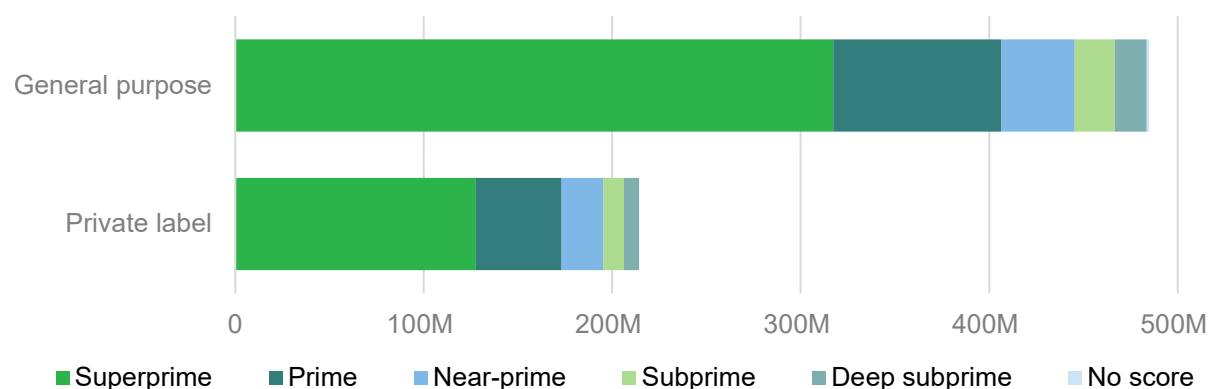
⁵² See Matthew Dalton & AnnaMaria Andriotis, *Consumers, Flush With Stimulus Money, Shun Credit-Card Debt*, Wall St. J. (Aug. 2, 2020), <https://www.wsj.com/articles/consumers-flush-with-stimulus-money-shun-credit-card-debt-11596373201>.

⁵³ This estimate is according to coverage of credit records present in the CCP sample, though this does not include authorized users, who are individuals designated by the primary account holder to use the same credit account. A recent report from the Federal Reserve finds 83 percent of consumers report having at least one credit card. See Bd. of Governors of Fed. Rsrv. Sys., *Report on the Economic Well-Being of U.S. Households in 2020*, at 42 (May 2021),

hold at least one general purpose and at least one private label card. Some 79 million hold only general purpose cards. Just under 9 million hold only private label cards.

General purpose cards remain prevalent, while private label cardholding has become relatively less common. By year-end 2020, there were 485 million open general purpose card accounts and 214 million open private label accounts. For general purpose card accounts, that represents the high-water mark for open accounts since at least 2005, while the number of open private label accounts has remained nearly unchanged since 2013. General purpose cardholding is just as common today as it was prior to the Great Recession, though that share is down from 63 percent on the eve of the pandemic. In contrast, 36 percent of adults held at least one private label card in 2020, compared to 52 percent in 2005. Consumers in all credit score tiers have seen declines in private label card account holding. Most general purpose and private label cards are held by consumers with superprime scores, as shown in Figure 1.

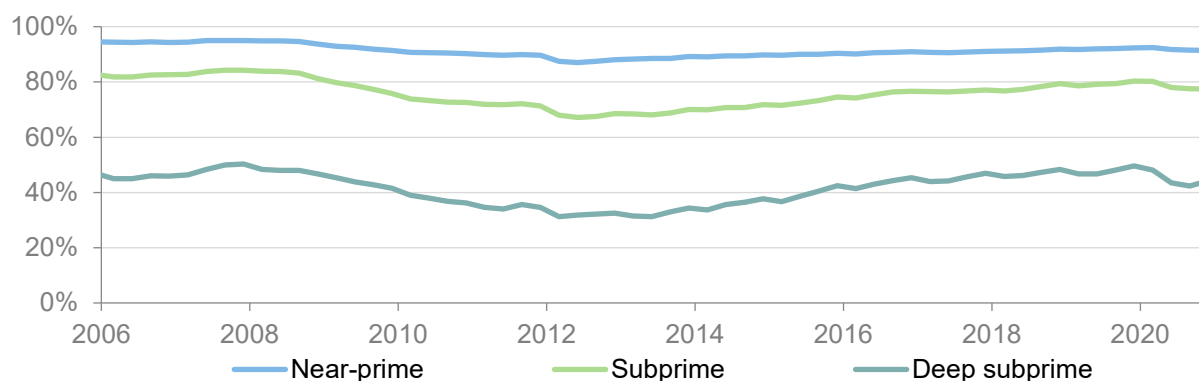
Figure 1: CREDIT CARD ACCOUNTS, YEAR-END 2020 (CCP)



<https://www.federalreserve.gov/publications/files/2020-report-economic-well-being-us-households-202105.pdf>. A recent report from the Federal Reserve Bank of Atlanta stated that 78 percent of consumers reported holding a credit card, see Kevin Foster, Claire Greene, & Joanna Stavins, *The 2020 Survey of Consumer Payment Choice: Summary Results* (Fed. Rsrv. Bank of Atlanta, Working Paper No. 21-1, 2021), <https://www.atlantafed.org/-/media/documents/banking/consumer-payments/survey-of-consumer-payment-choice/2020/2020-survey-of-consumer-payment-choice.pdf>. For estimates of the adult population in the United States, see Stella Ogunwole et. al, *Population Under Age 18 Declined Last Decade*, Census Bureau (Aug. 12, 2021), <https://www.census.gov/library/stories/2021/08/united-states-adult-population-grew-faster-than-nations-total-population-from-2010-to-2020.html>.

The share of consumers with below-prime scores holding at least one open credit card account fell in 2020 following several years of moderate growth. Cardholding dropped significantly across these credit score tiers during and shortly after the Great Recession. This metric has grown in recent years in the lower credit tiers but fell in 2020 and has yet to return to pre-COVID-19 recession levels for cardholders in any below-prime credit tier. As of year-end 2020, fewer than half of consumers with deep subprime scores held a credit card, while near-prime and subprime cardholding remains significantly more common than deep subprime cardholding, at 91 percent and 78 percent respectively.

Figure 2: SHARE OF CONSUMERS WITH NON-PRIME SCORES WITH AT LEAST ONE CREDIT CARD (CCP)

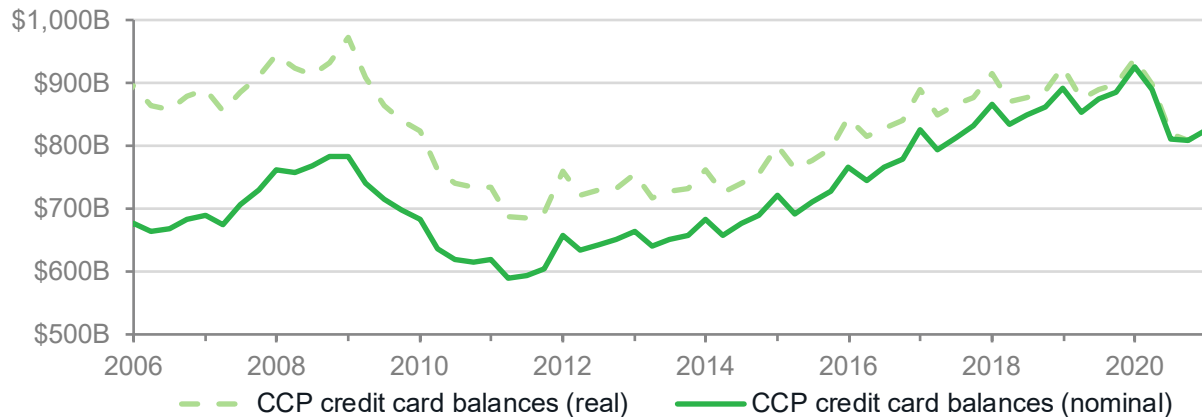


Cardholders carry fewer cards as of year-end 2020 than they did in 2018. The average cardholder carried 3.8 cards in 2020, compared to 4 in 2018. This decrease may reflect reduced demand for new cards during the pandemic, but it may also reflect an increase in card closures as issuers endeavored to reduce their exposure to potential losses during uncertain economic times.

2.2 Debt levels

Consumer credit card debt had been increasing every year since 2011, before reversing course suddenly following the onset of the pandemic. Credit card debt peaked in 2019 at \$926 billion, but by the second quarter of 2020 consumers had reduced card balances to \$811 billion, the largest six-month reduction in U.S. history. By the end of 2020, debt had crept back up to \$825 billion. Adjusted for inflation, current debt stands at 2016 levels, as shown in Figure 3.

Figure 3: AVERAGE CREDIT CARD BALANCES, NOMINAL AND INFLATION-ADJUSTED (CCP, BLS)⁵⁴



General purpose credit card debt declined sharply in 2020, reversing a long-term trend of balance growth. In its last report the Bureau noted that balances had more-or-less steadily increased since the end of 2010 to nominal pre-Great recession levels. By the fourth quarter of 2020, however, general purpose credit card debt stood at \$745 billion, well below the \$793 billion mark reached in the fourth quarter of 2018. The decrease in balances is significant for cardholders in all score tiers – deep subprime cardholders reduced their balances by 24 percent in the second quarter of 2020 alone. This result has likely been caused by a temporary reduction in spending during the first few months of the pandemic, coupled with the impact of federal relief programs such as Economic Impact Payments and payment suspensions on other products such as federally held student loans.

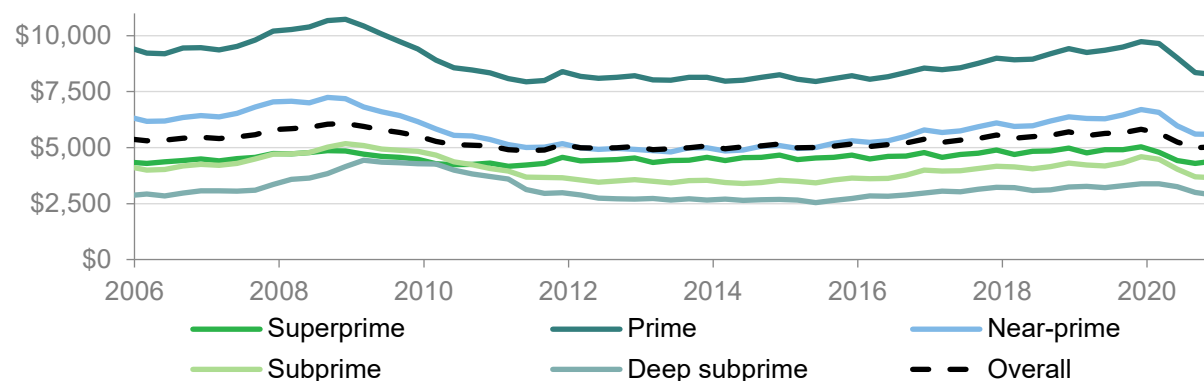
Private label credit card debt had also been growing rapidly in recent years, before declining in 2020. After rising to \$91 billion in the fourth quarter of 2018, private label debt fell to \$82 billion in the fourth quarter of 2020, a decline of 10 percent. Similar to general purpose cards, private label balance declines were most significant for cardholders with deep subprime scores, who reduced balances by 36 percent in 2020, the largest year-over-year decline since at least 2005.

⁵⁴ This chart displays average cycle-ending balances calculated across each full year, which decreases the effect of seasonality. See Bur. Of Labor Stat., Series CUUR0000SA0, <https://www.bls.gov/> (last accessed June 14, 2021).

GENERAL PURPOSE

Indebted general purpose cardholders in every credit score tier reduced their average balances significantly in 2020, but cardholders with prime scores remain the most indebted. For consumers who held at least one such card with a balance, average general purpose credit card balances were roughly \$5,700 as of the end of 2018. At the end of 2019, that figure had risen to \$5,800, before declining to roughly \$5,000 by the end of 2020. Average balances declined for cardholders in all credit score tiers by 13 to 20 percent year-over-year in 2020, as shown in Figure 4. However, cardholders with prime credit scores continue to show significantly higher credit card balances on average than cardholders in any other credit score tier, at more than \$8,000 per indebted general purpose cardholder as of the end of 2020.

Figure 4: AVERAGE PER-CARDHOLDER CREDIT CARD BALANCES, GENERAL PURPOSE (CCP)



Many events and consumer behavioral trends may have contributed to the declines in general purpose card debt in 2020. As discussed in the next section, the beginning of the pandemic saw declines in spending, which may have enabled some cardholders to use those funds to pay down debt. Unprecedented levels of direct government assistance, such as Economic Impact Payments, enhanced unemployment benefits, and payment and interest suspensions on federally-held student loans may have provided some consumers with additional disposable income usable to reduce balances.⁵⁵ Reductions in payments on other credit products, such as mortgages following a refinance to lower rates, may also have been a factor. However, some

⁵⁵ See, e.g., Stefan Lembo Stolba, *Credit Card Debt in 2020: Balances Drop for the First Time in Eight Years*, Experian (Nov. 2020), <https://www.experian.com/blogs/ask-experian/state-of-credit-cards/>.

evidence also suggests that, rather than reduce debt, some consumers may have simply shifted purchasing behavior away from credit cards to debit cards or other forms of credit, such as buy-now pay-later or personal loan products. The debt paydown was also likely unevenly distributed, with those individuals that lost their jobs reporting a greater likelihood to have increased balances in the prior twelve months.⁵⁶ Similarly, cardholders did not equally benefit from CARES Act provisions.⁵⁷

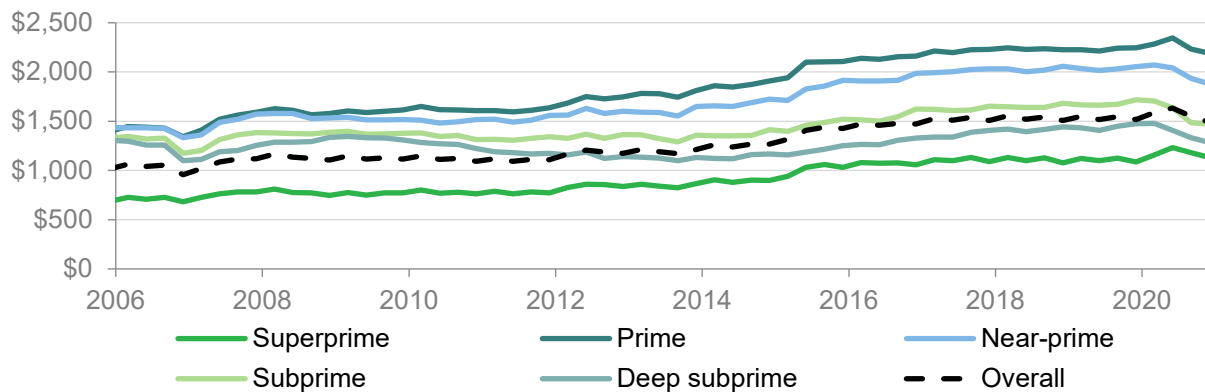
PRIVATE LABEL

In contrast to general purpose card trends, average per-cardholder balances for private label cardholders rose during the first and second quarters of 2020, before declining somewhat by the end of the year. Average private label balances for all credit tiers reached new peak nominal levels in late 2019 and 2020. Average per-cardholder private label balances rose to its highest level of more than \$1,600 in mid-2020 before falling to less than \$1,500 by the end of the year. While private label balances are lower on average than general purpose cards, cardholders with prime scores remain the biggest carriers of private label debt. Average private label balances for cardholders with prime scores peaked at \$2,300 in mid-2020 before declining to roughly \$2,200 by year-end 2020.

⁵⁶ See Bd. of Governors of Fed. Rsrv. Sys., *Report on the Economic Well-Being of U.S. Households in 2020*, at 42 (May 2021), <https://www.federalreserve.gov/publications/files/2020-report-economic-well-being-us-households-202105.pdf>. Bureau research finds some evidence that support this finding. See Sandler & Ricks, *supra* note 24, at 24-25.

⁵⁷ See AnnaMaria Andriotis & Orla McCaffrey, *Pausing Loan Payments During Coronavirus Is Producing Uneven Results*, Wall St. J. (Nov. 2020), <https://www.wsj.com/articles/pausing-loan-payments-during-coronavirus-is-producing-uneven-results-11606559401>.

Figure 5: AVERAGE PER-CARDHOLDER CREDIT CARD BALANCES, PRIVATE LABEL (CCP)



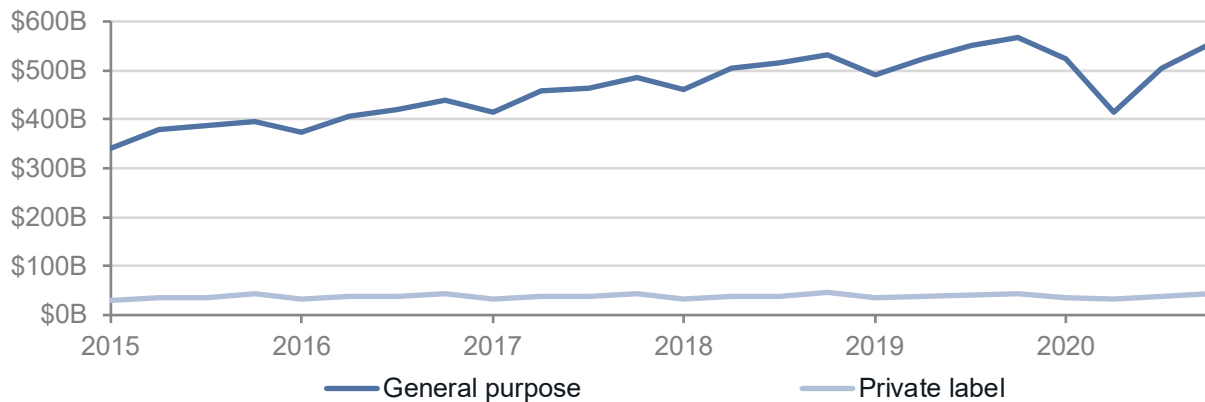
2.3 Purchase volume

Purchase volume on general purpose cards grew steadily for several years before declining rapidly in the early part of the pandemic, but volumes returned to previous levels by the end of 2020. For all of 2019 and early 2020, general purpose card purchase volumes for card issuers in the Bureau's sample typically exceeded \$500 billion each quarter. Yet, general purchase volumes fell 21 percent in the second quarter of 2020.⁵⁸ In contrast, private label card spending is much lower at roughly \$40 billion per quarter and has remained relatively flat since at least 2015. Some of the declines in general purpose purchase volumes can be attributed to reductions in spending on travel, restaurants, and entertainment, categories of activities that became much less common during the pandemic.⁵⁹

⁵⁸ The Bureau's 2019 Report relied on Nilson data, which considers a wider range of products and purchases than the Y-14+ data.

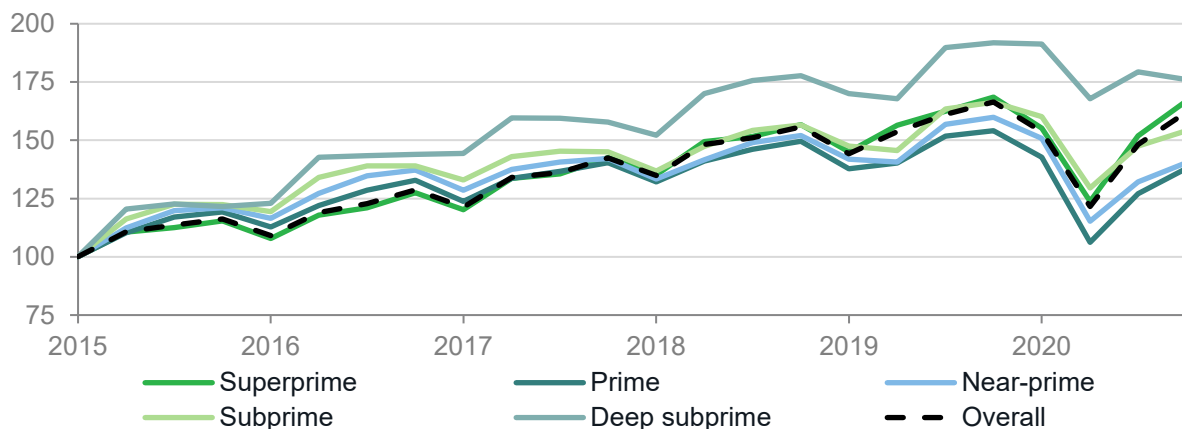
⁵⁹ For more information on COVID-19, see Section 5.5.

Figure 6: CREDIT CARD PURCHASE VOLUME (Y-14+)



Cardholders in all credit score tiers contributed to the decline in purchase volumes in the second quarter of 2020, but most tiers saw purchase volumes rebound to previous highs by the end of the year. Cardholders with superprime scores accounted for 83 percent of all general purpose card purchase volume in 2020, and in the last quarter of the year their spending was 67 percent higher than in the first quarter of 2015. Cardholders with prime scores made up 11 percent of spending in 2020 but saw spending decline in the second quarter of 2020 to only 6 percent higher than in the first quarter of 2015, and volumes have yet to return to where they were prior to the pandemic. While growth in spending since 2015 was greatest for cardholders with deep subprime scores in percentage terms, these cardholders account for less than 1 percent of general purpose purchase volume.

Figure 7: CREDIT CARD PURCHASE VOLUME, GENERAL PURPOSE (Y-14+) (INDEXED TO Q1 2015 = 100)



2.4 Repayment

2.4.1 Revolving rates

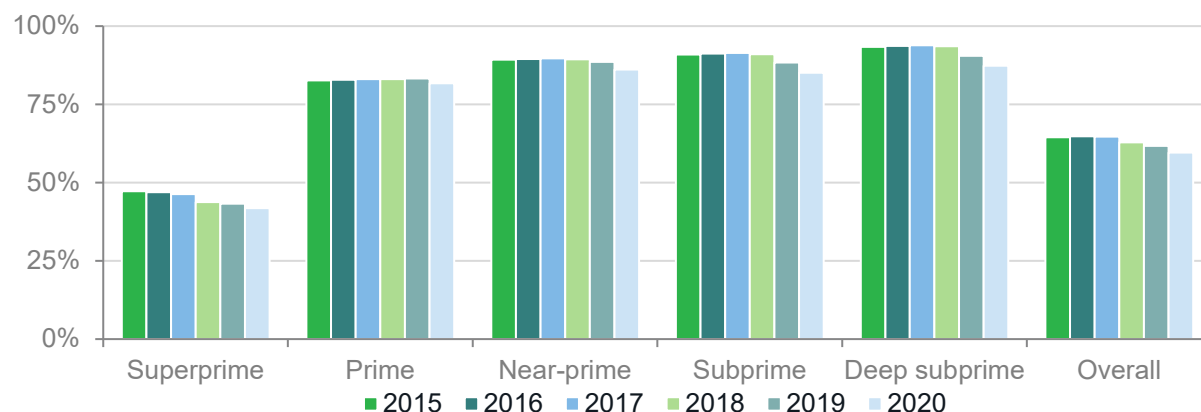
Accounts with balances can be identified as exhibiting one of two basic patterns in any given cycle. “Transacting” accounts pay off the previous cycle’s balance in full before the end of the next cycle. “Revolving” accounts pay some amount less than that.⁶⁰ Although an account can move back and forth between transacting and revolving, many accounts reveal persistent payment behavior over time.⁶¹ The Bureau calculates the share of accounts revolving in a given cycle as the number of accounts that revolve divided by the total number of revolving and transacting accounts. The denominator excludes accounts that fail to satisfy either condition and are “neither transacting nor revolving.”

Over the past two years, a decreasing share of general purpose accounts revolved a balance from one month to the next. Figure 8 shows the decline in revolver activity from 2018 to 2020 was true for every credit tier except prime. For cardholders with lower scores, this trend is particularly noteworthy as the share of revolving subprime and deep-subprime general purpose accounts fell 6 and 7 percentage points respectively from 2018 levels. The decrease in revolver activity is a significant shift in payment behavior that predates but may have been accelerated by the pandemic.

⁶⁰ The methodology for determining whether an account is revolving has changed from when the Bureau reported on this in 2017 or 2019. In this report, an account is considered “revolving” in a cycle if its beginning balance is larger than the sum of payments received in a cycle. If the sum of payments is equal to or exceeds a non-zero beginning balance, it is considered “transacting.” If an account does not satisfy either condition (for example if the beginning balance is zero) it is “neither transacting nor revolving.” The denominator excludes accounts in a transitioning status. Figures that use Y-14 and Y-14+ data are based only on accounts that are “open and active” in a given month or cycle.

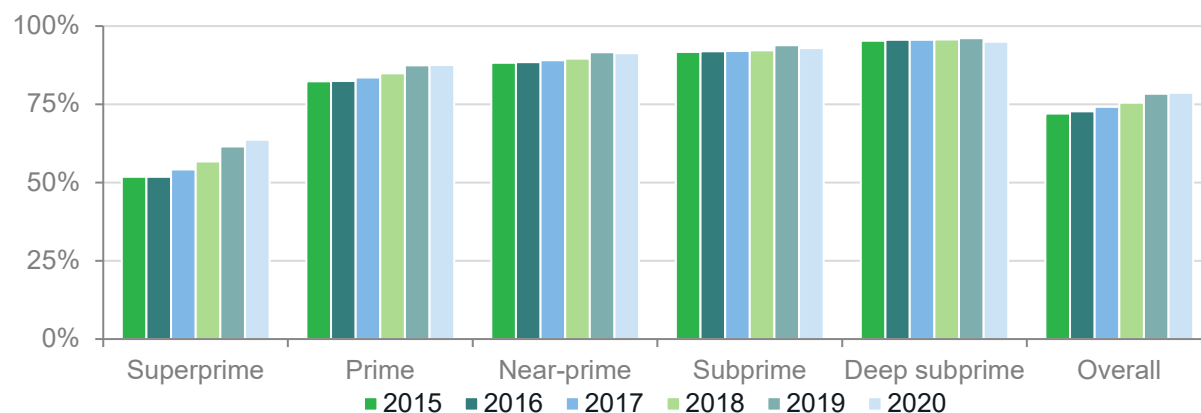
⁶¹ See 2015 Report, *supra* note 6, at 50-52 (citing Benjamin J. Keys & Jialan Wang, *Minimum Payments and Debt Paydown in Consumer Credit Cards* (U. of Chicago Harris Sch. of Pub. Pol’y, Working Paper 2016), <https://www.nber.org/papers/w22742>).

Figure 8: SHARE OF ACCOUNTS REVOLVING, GENERAL PURPOSE (Y-14+)



In contrast to general purpose, Figure 9 shows that the overall share of private label accounts that revolve increased in 2019 and remained at an elevated level in 2020. Over three-fourths of private label accounts now pay less than the previous cycle's balance each cycle. An increase in revolver activity by consumers with near-prime scores or higher drove the expansion in the total share of revolving accounts. There was no significant change in revolving rates for subprime and deep subprime accounts from 2018 levels. For all credit tiers, a greater share of private label accounts revolves a balance each month than general purpose accounts.

Figure 9: SHARE OF ACCOUNTS REVOLVING, PRIVATE LABEL (Y-14+)



While the Bureau can only quantify the share of accounts that revolve, recent data from the Survey of Consumer Payment Choice suggests that the share of consumers who revolve is at its lowest point since 2015. At the time of the survey in October 2020, 51.3 percent of consumers with a credit card reported carrying a balance at some point in the last 12 months, down one

percentage point from 2019, while 40.7 percent reported carrying a balance within the last month, down six percentage points from 2019.⁶² Federal Reserve Board data from the annual Survey of Household Economics and Decisionmaking (SHED) support this conclusion, with 48 percent of survey cardholders in 2020 reporting that they never carried an unpaid balance during the preceding 12 months, a two percentage point increase from 2019 levels.⁶³

2.4.2 Payment rates

Payment rates provide an additional measure of consumer reliance on credit cards as a source of consumer credit.⁶⁴ The payment rate is the share of total cycle-beginning balances paid that cycle.⁶⁵

General purpose card payment rates continue to grow, driven by steadily increasing payments by cardholders with superprime scores in 2019 and a marginal rise in payments by cardholders with lower scores in 2020. About one-third of total general purpose cycle beginning balances are now paid by cycle's end, but repayment differs by credit score. Superprime accounts pay half of their total balances each cycle. In contrast, all other tiers pay less than one-sixth. Yet, payment rates for subprime and deep subprime accounts slightly increased in 2020. Higher payment amounts coupled with lower purchase volume contributed to a decline in debt starting in the second quarter of 2020. As purchase volumes began to rise in the latter half of the year,

⁶² See *supra* note 53 and Fed. Rsrv. Bank of Atlanta, *2020 SCPC Tables* (Jan. 2021), https://www.atlantafed.org/-/media/documents/banking/consumer-payments/survey-of-consumer-payment-choice/2020/tables_scpc2020.pdf.

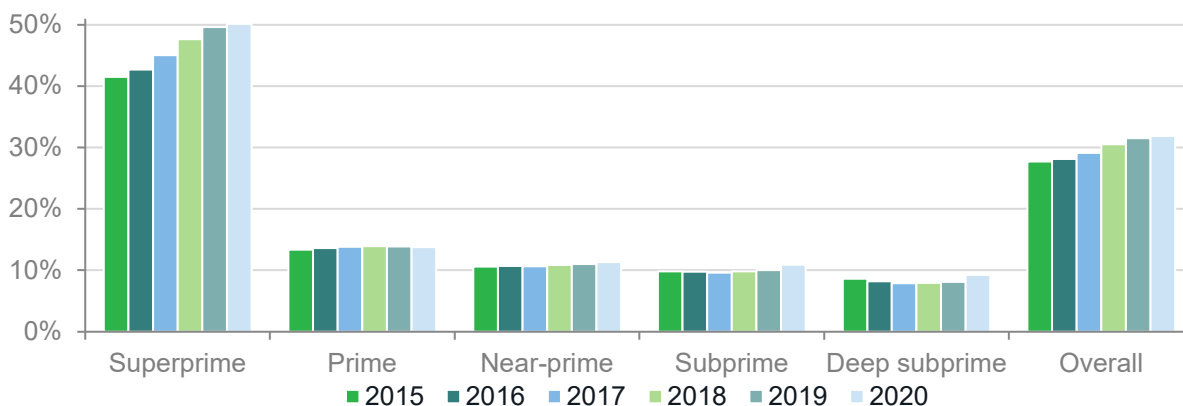
⁶³ See Bd. Of Governors for the Fed. Rsrv. Sys., *Report on the Economic Well-Being of U.S. Households in 2020*, at 42 (May 2021), <https://www.federalreserve.gov/publications/files/2020-report-economic-well-being-us-households-202105.pdf>. See also Bd. Of Governors for the Fed. Rsrv. Sys., *Report on the Economic Well-Being of U.S. Households in 2019*, at 30 (May 2020), <https://www.federalreserve.gov/publications/files/2019-report-economic-well-being-us-households-202005.pdf>.

⁶⁴ Payment measures cannot be shown at the consumer level because the CCP does not contain payment data. The Y-14 is used instead for these views.

⁶⁵ Thus, a payment rate of 100 percent corresponds to all account balances being paid in full, and a payment rate of zero percent indicates that no one is paying any credit card bill even in part.

payment rates remained comparatively elevated, explaining the decline in average balances.⁶⁶ Economic Impact Payments and the deferral of other debt obligations during the pandemic supported higher payment rates. Payment rates in 2020 were also affected by issuer relief programs like “skip-a-pay.”⁶⁷

Figure 10: PAYMENT RATE, GENERAL PURPOSE (Y-14+)



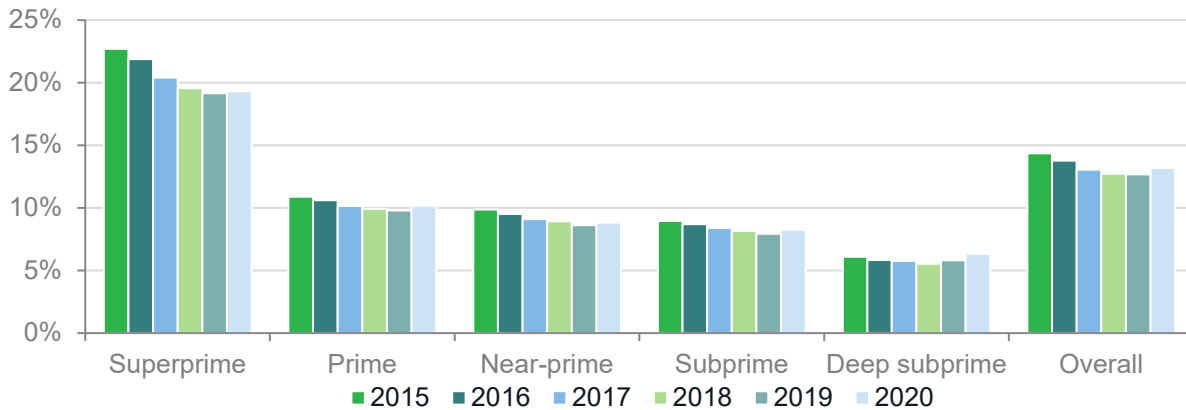
Private label payment rates rose for the first time in five years. While the overall increase was small in magnitude, the trend reversal is significant, as it was driven by consumers with lower credit scores. As the share of subprime and deep subprime revolvers did not substantively change from 2019 to 2020, it is likely these consumers paid down a portion of previously incurred retail card debt less than the total balance. Private label payment rates for consumers with superprime scores continue to be double that of all other tiers. One explanation for lower private label payment rates may be the prevalence of deferred interest promotions, which incentivize consumers to pay less than the full balance prior to promotion expiration.⁶⁸

⁶⁶ See Sections 2.2 and 2.3 for further data on average debt and purchase volumes.

⁶⁷ See Section 5.5 for further information on short-term payment deferral programs.

⁶⁸ See 2017 Report, *supra* note 6, at 58 (finding that deferred interest promotional balances outstanding for consumers with superprime scores were equivalent to over half of private label balances owed by those same consumers). For more information regarding deferred interest promotions, see Section 5.2.

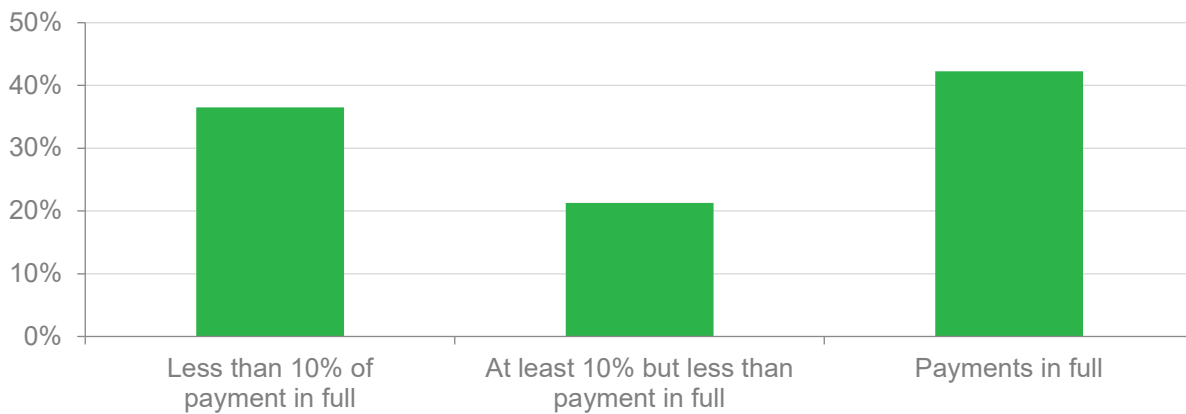
Figure 11: PAYMENT RATE, PRIVATE LABEL (Y-14+)



The distribution of payment rates is bimodal. About two-fifths of accounts pay their balances in full. Over one-third pay less than 10 percent of their balances. In comparison, Figure 12 shows a much smaller percentage pay between 10 percent and 100 percent of their balances each month. This is likely driven by persistent transacting and revolving activity over time. Payment amount is used by reporting agencies to calculate credit score, partially explaining the stark difference in payment behaviors among tiers. However, recent research by the Bureau suggests that only about half of the largest credit card issuers furnish actual payment data.⁶⁹

⁶⁹ Logan Herman, Jonah Kaplan, & Austin Mueller, *Quarterly Consumer Credit Trends: Payment Amount Furnishing & Consumer Reporting*, Bureau of Consumer Fin. Prot. (Nov. 12, 2020), <https://www.consumerfinance.gov/data-research/research-reports/quarterly-consumer-credit-trends-payment-amount-furnishing-consumer-reporting/>.

Figure 12: DISTRIBUTION OF PAYMENT AMOUNTS ACROSS HIGH, LOW, AND INTERMEDIATE PAYMENTS, 2020 (Y-14)



2.4.3 Payment methods

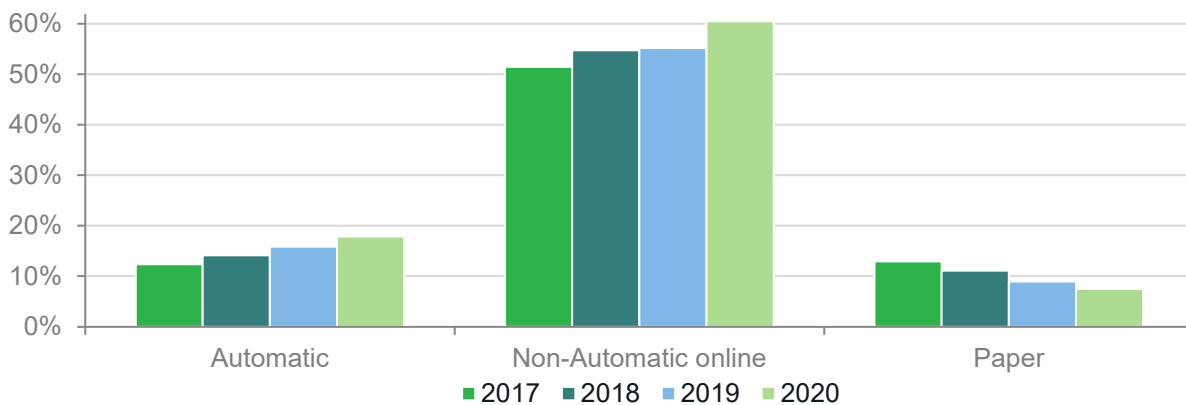
More consumers than ever are paying their credit card bills online or via mobile app. Concurrently, the use of paper-based payments has declined. These trends are true overall and for each age group. Yet adoption of digital payments for older consumers accelerated in 2020 as technological literacy increased during the pandemic. When using an issuer’s online portal or mobile app, consumers can generally authorize non-recurring “one-time” payments or recurring “automatic” payments. For all methods, consumers can choose any payment amount and date but often choose the minimum payment or full statement balance as prominently displayed payment options.

The share of consumers enrolled in automatic payments continues to increase. In 2020, 20 percent of active accounts within the scope of the MMI survey were enrolled in automatic payments at year-end compared to 16 percent in 2018.⁷⁰ Automatic payment eliminates late fee

⁷⁰ Some studies have reported markedly higher consumer-reported rates of automatic payment. *See, e.g.,* Mercator Advisory Group, *U.S. Consumers and Credit: Rising Usage*, at 38 (Dec. 2018), <https://www.mercatoradvisorygroup.com/Reports/Consumers-and-Credit--Rising-Usage/>. It is possible that consumers who self-report overstate the extent of their use of automatic payment. Consumers may also be including *pre-authorized* one-time payments as automatic payments.

charges which has been reported in surveys as the main benefit of enrollment.⁷¹ However, it could potentially lead to overdraft charges on checking accounts. The Bureau has not attempted to quantify this impact or to determine fee incidence rates associated with automatic payment.

Figure 13: SHARE OF ACTIVE ACCOUNTS THAT MADE A PAYMENT IN THE LAST CYCLE OF THE YEAR BY PAYMENT METHOD, GENERAL PURPOSE (MMI)⁷²



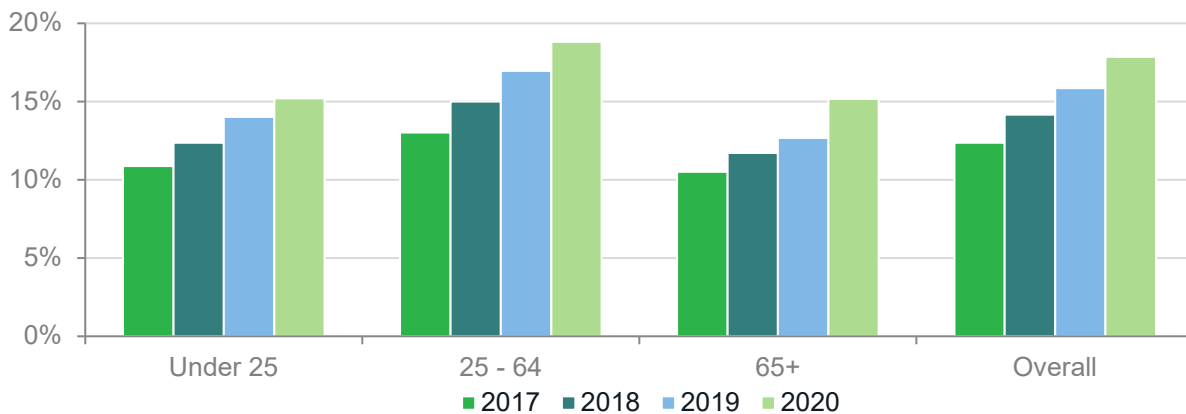
In 2019 and 2020, the use of automatic and non-automatic online payments continued to increase while payment of general purpose card statements by paper fell into single-digits. As shown in Figure 14, the age group with the highest share of accounts making an automatic payment (at 18 percent) are cardholders aged 25 to 64. Consumers under age 25 are about as likely to use automatic payments as those 65 years and older—roughly 15 percent for both groups. Despite increasing adoption of automatic payments for all demographics over the past two years, barriers to adoption remain. Surveys report that those who do not enroll in automatic payments express a desire to maintain manual controls, such as varying payment amount or checking statements first.⁷³

⁷¹ See Auriemma Consulting Group, *Buy Now, Pay Later, Instant Issuance and Automatic Payments, The Payments Report*, at 12 (Mar. 2021).

⁷² Values do not sum to 100 percent as certain forms of payment, such as telephone and payments from a third-party, are not included.

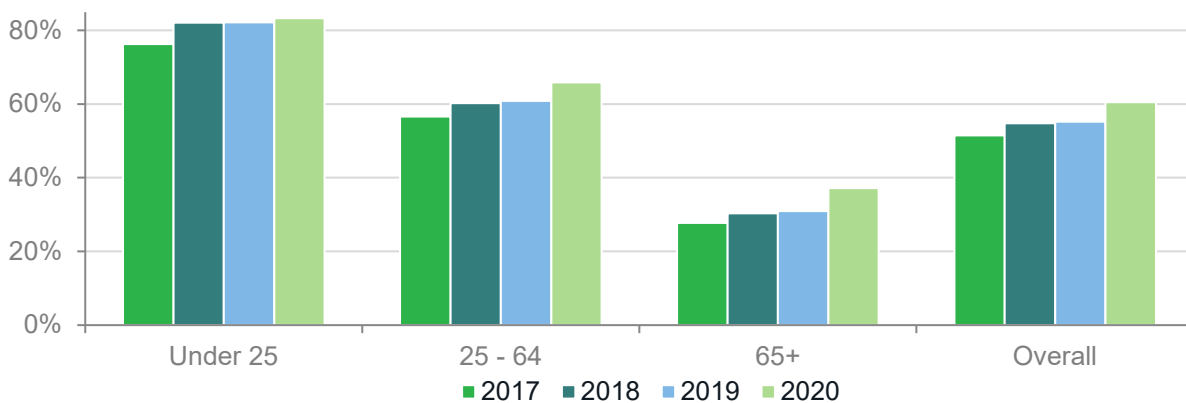
⁷³ See Auriemma Consulting Group, *supra* note 71.

Figure 14: SHARE OF ACTIVE PAYMENT-MAKING ACCOUNTS THAT MADE AT LEAST ONE AUTOMATIC PAYMENT IN THE LAST CYCLE OF THE YEAR VIA ONLINE PORTAL OR MOBILE APP BY AGE, GENERAL PURPOSE (MMI)



There was little change in the use of non-automatic online payments in 2019, yet the total share of accounts utilizing this payment method jumped for consumers over 25 in 2020. Three-fifths of accounts in 2020 made at least one electronic payment via online portal or mobile app. Younger consumers are still significantly more likely to use one-time digital payments, but evidence suggests other age groups may be rapidly enrolling in digital servicing platforms.

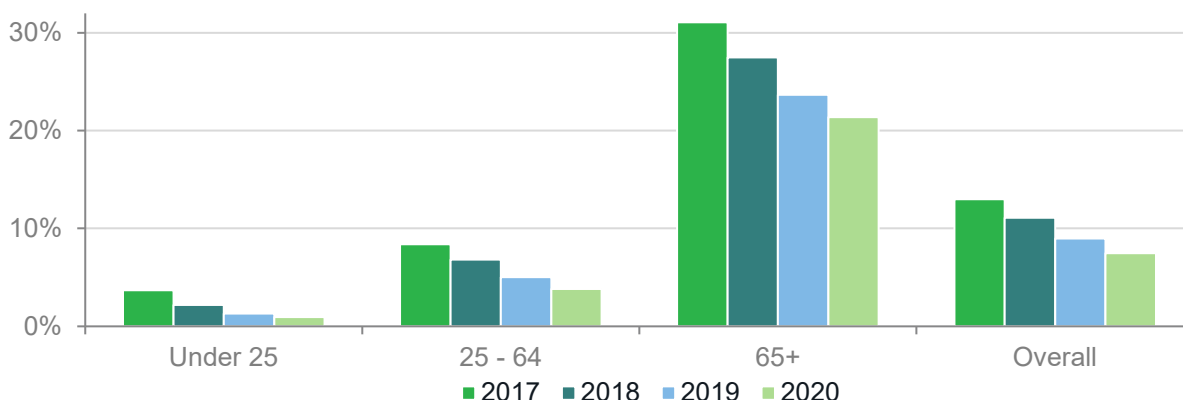
Figure 15: SHARE OF ACTIVE PAYMENT-MAKING ACCOUNTS THAT MADE AT LEAST ONE “ONE-TIME” ELECTRONIC PAYMENT IN THE LAST CYCLE OF THE YEAR VIA ONLINE PORTAL OR MOBILE APP BY AGE, GENERAL PURPOSE (MMI)



Paper-based payments remain a prominent payment method for older Americans, but that appears to be changing. In 2017, 31 percent of consumers 65 and older that made a payment in the final month of the year used a paper check at least once that cycle. In 2020, that figure had fallen to 21 percent. Yet, the difference between age groups remains stark—only 1 percent of

consumers under 25 and 4 percent of consumers between the ages of 25 and 64 used a paper check to pay their credit card bill in the last payment cycle of 2020. Additionally, one academic researcher has found the use of active choice formats like digital, as opposed to paper, payments may increase the amount consumers pay, which could lead to lower debt levels.⁷⁴

Figure 16: SHARE OF ACTIVE PAYMENT-MAKING ACCOUNTS THAT MADE AT LEAST ONE PAPER PAYMENT IN THE LAST CYCLE OF THE YEAR BY AGE, GENERAL PURPOSE (MMI)



2.5 Delinquency

General purpose and private label card delinquency rates continued to increase throughout 2019, maintaining their upward trend following the Great Recession and reaching a peak at the end of the year.⁷⁵ From the first quarter of 2020 onward, however, both general purpose and

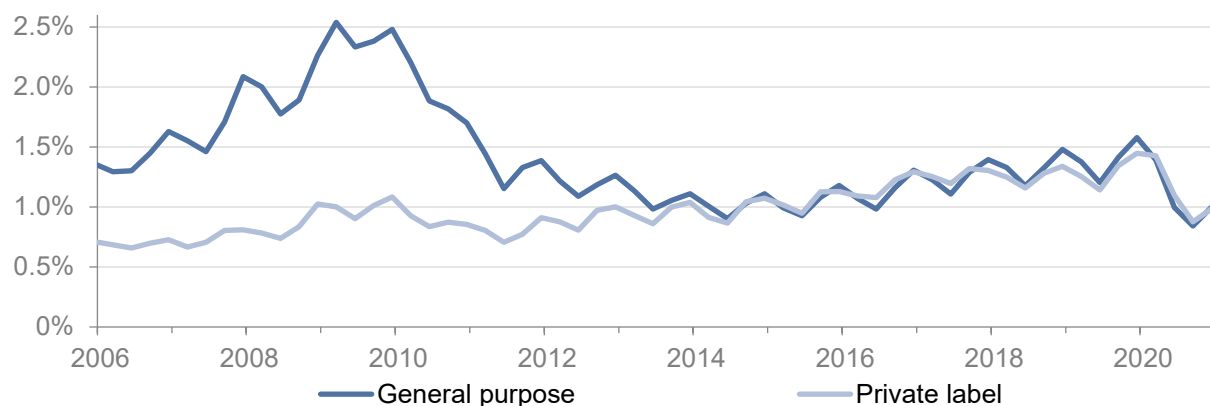
⁷⁴ “Our findings that minimum required payment rates, statement balance payoff rates, and average payment amounts are higher in active choice formats typical of credit card account portals (versus traditional open choice formats on credit card paper billing statements) suggest that online repayment may impact debt levels. Downward shifts toward the minimum required amount increase long-term debt, while upward shifts toward the full balance decrease debt, so the relative propensity of each behavior will influence the degree to which aggregated debt levels increase or decrease over time.” See Salisbury Comment Letter, at 2-3.

⁷⁵ When a consumer fails to make a required minimum payment by the due date, the credit card account becomes “delinquent.” Because credit scores are heavily influenced by delinquency and charge-offs, these measures are not shown by credit score.

private label delinquency rates started to decline and continued to fall up until the final quarter of the year, erasing six years of increases.

This trend most likely reflects the impact of government financial relief enacted to offset the financial hardship imposed by COVID-19 and the resulting recession.⁷⁶ Bureau research utilizing survey data also implies that the falling delinquency rate over the course of the pandemic reflects both private and public relief, including unemployment relief and loan forbearance programs. Additional Bureau research suggests the share of accounts actively receiving assistance increased through the first half of 2020.⁷⁷

Figure 17: SHARE OF ACCOUNTS 60 OR MORE DAYS DELINQUENT (CCP)⁷⁸



Convergence in account delinquency rates for general purpose and private label card continued throughout 2019 and 2020, with rates moving in near lockstep throughout 2020. One explanation for the convergence over the past decade may be that private label card issuers are

⁷⁶ For more information regarding issuer response to the COVID-19, see Section 5.5. *See also* Scott Fulford, Marie Rush, & Eric Wilson, *Data Point: Changes in consumer financial status during the early months of the pandemic: Evidence from the second wave of the Making Ends Meet survey*, Bureau of Consumer Fin. Prot. (Apr. 2021), https://files.consumerfinance.gov/f/documents/cfpb_making-ends-meet-wave-2_report_2021-04.pdf.

⁷⁷ *See* Sandler & Ricks, *supra* note 24, at 24-25.

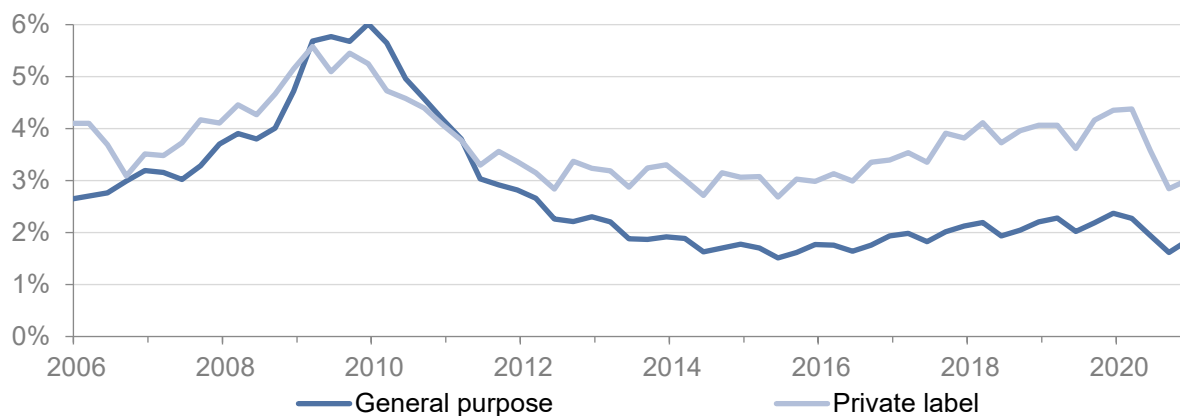
⁷⁸ Figures 17 and 18 use the delinquency definition “60 or more days delinquent,” meaning that the account is at least three minimum monthly payments behind on debt repayment. This is considered “severe” delinquency.

increasingly offering cards to consumers with lower credit scores. In addition, COVID-19 related financial relief and interventions may impact accounts uniformly across card type.

The share of balances 60 or more days delinquent also decreased in 2020, although general purpose card balances exhibited a sharper decline than that of private label. Private label balance delinquency rates fell from a peak of 2.4 percent at end of year 2019 to just under 3 percent by third quarter 2020, undoing three years of upward trends. General purpose balance delinquency rates also peaked in 2019, although at a lower rate of 2.4 percent, and then fell to 1.6 percent by third quarter 2020, a low not seen since 2016.

Even as account delinquency rates for general purpose and private label cards converged in the wake of the Great Recession, delinquency rates as shares of balances diverged, as shown in Figure 18. However, throughout 2020, the measured disparity between rates by card type fell from a maximum of 2 percentage points in 2019 to closer to one percentage point in 2020. This slight convergence may reflect uniform impacts of policy interventions and consumer behavior in response to the COVID-19 recession across card types, similarly to the increased convergence of the share of delinquency rates by accounts for both general purpose and private label cards.

Figure 18: SHARE OF BALANCES 60 OR MORE DAYS DELINQUENT (CCP)



2.6 Charge-off

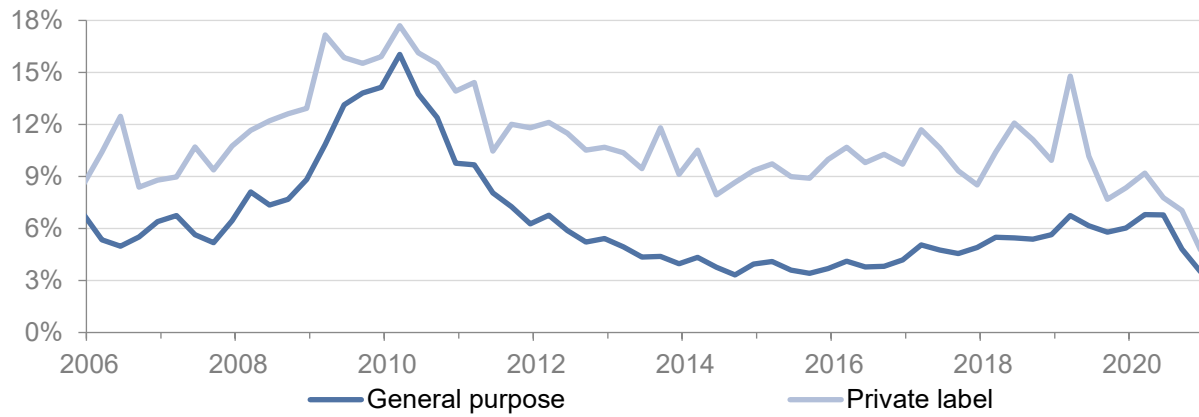
Charged-off balances also declined through the COVID-19 recession, but less uniformly than delinquency rates.⁷⁹ Private label charge-offs reached a peak of around 15 percent at the end of 2019 and fell throughout 2020 to around 5 percent. This observed pattern reflects the higher volatility of private label charge-off rates in comparison to general purpose. General purpose charge-offs remained roughly consistent around 6 percent until mid-year 2020, then fell to around 3.5 percent. Private label charge-offs and general purpose charge-offs exhibit a convergence over the period similar to that of delinquency rates.

Declines (or moderation, in the case of general purpose cards) in charged-off balances began before the pandemic and subsequent financial relief, but, over the course of 2020, charge-offs across both card types fell in lockstep. This decline likely reflects the economic impact of government and private interventions in response to COVID-19. Forward-looking statements made by several major issuers suggest issuers expect that charge-offs could return to pre-pandemic levels in the medium term, based on recent increases in delinquency rates.⁸⁰

⁷⁹ Accounts that remain delinquent for 180 days must be “charged off,” meaning that the issuer can no longer consider the outstanding balance as an asset on its balance sheet. Delinquent accounts may have to be charged off prior to 180 days in certain circumstances as, for example, with a bankruptcy. *See* Off. of the Comptroller of the Currency, *Policy Implementation – The Guidance Attached to this Bulletin Continues to Apply to Federal Savings Associations*, OCC Bulletin 2000-20 (June 20, 2000), <https://occ.gov/news-issuances/bulletins/2000/bulletin-2000-20.html>.

⁸⁰ Issuers note losses have remained low but may rise in the next year or two. “[W]e now expect our card net charge-off rate to be around 250 basis points for the year. ... pre-COVID, we would have thought that our loss rate in card this year would have been 3.3%, 3.5%. So it just gives you a sense there that tailwind on credit is significant.” JPMorgan Chase & Co., *Q1 2021 Results – Earnings Call Transcript*, Seeking Alpha (Apr. 14, 2021), <https://seekingalpha.com/article/4419102-jpmorgan-chase-and-co-jpm-ceo-jamie-dimon-on-q1-2021-results-earnings-call-transcript>; “With respect to credit, delinquencies are expected to increase from the current levels. So, we now believe the peak will occur later than we anticipated, likely in early 2022. While current delinquencies will result in lower net charge-offs in the second quarter, we expect net charge-offs to rise resulting from the increases in delinquencies as we move through 2021.” Synchrony Financial, *Q1 2021 Results – Earnings Call Transcript*, Seeking Alpha (Apr. 27, 2021), <https://seekingalpha.com/article/4421546-synchrony-financial-2021-q1-results-earnings-call-transcript>; “The increase in card net charge-offs from the prior quarter was driven by accounts that had been in Skip-a-Pay and did not gear. ... Looking forward, we expect minimal impact to charge-offs from this population.” Discover Financial Services, *Q1 2021 Results – Earnings Call Transcript*, Seeking Alpha (Apr. 22, 2021), <https://seekingalpha.com/article/4420711-discover-financial-services-dfs-ceo-roger-hochschild-on-q1-2021-results-earnings-call>.

Figure 19: ANNUALIZED RATE OF GROSS OUTSTANDING BALANCES CHARGED OFF (CCP)



3. Cost of credit

As its predecessors did, this report assesses overall costs to credit card consumers using the Bureau’s total cost of credit (TCC) measure. TCC captures the totality of payments by consumers to issuers as an annualized percentage of cycle-ending balances on their accounts.⁸¹ This section also looks separately at the main components of TCC—interest charges and fees.⁸² Cardholders revolving debt from one month to the next pay the majority of fees and interest. This analysis focuses primarily (but not exclusively) on costs to revolving cardholders.

3.1 Total cost of credit

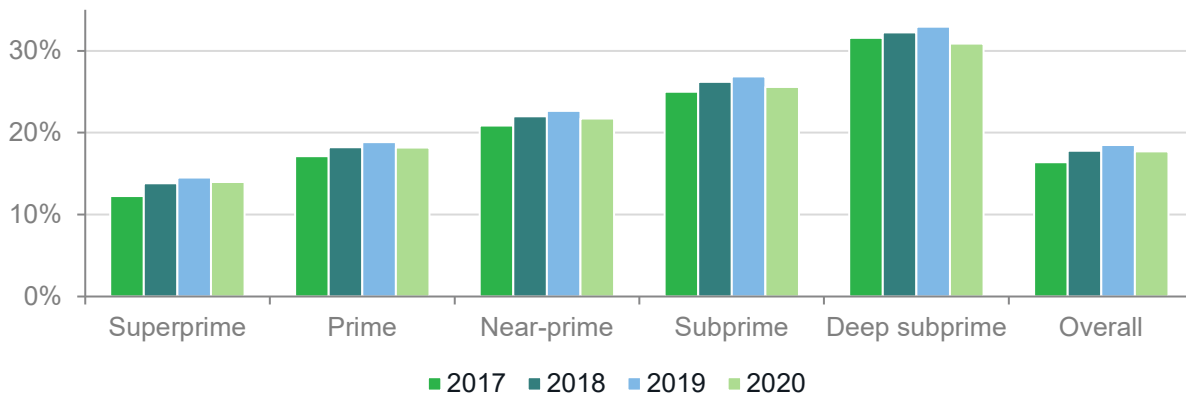
TCC on accounts that carried a balance increased in 2019, but 2020 saw total cost return to 2018 levels. The general purpose card cost of credit increased from 15.3 percent in 2015 to 18.5 percent in 2019, but costs declined to 17.7 percent in 2020. As discussed in more detail below, both the prior-year cost increases and the 2020 decrease were driven by broader shifts in the interest rate environment; fee costs in every credit tier have been flat. Between August 2019 and March 2020, the prime rate decreased a total of 2 percentage points, which drove the decline in TCC, because most consumer credit cards have variable rates that are tied to changes in the prime rate.⁸³

⁸¹ Cost data are from the Y-14, augmented by summary data that the Bureau collected from a range of issuers not included in that source. Y-14 data do not permit consumer-level cost reporting. For more detail on Y-14 data, see Section 1.3.1. Although this report uses broader cost data than previous iterations did, the Bureau does not claim that these data are representative of the market not covered by the data. TCC does not include the cash value of any rewards that may have been earned by the cardholder.

⁸² The TCC metric was initially introduced in the 2013 Report and has since been used in the 2015 Report, 2017 Report, and 2019 Report. See 2013 Report, *supra* note 6, at 19; 2015 Report, *supra* note 6, at 76; 2017 Report, *supra* note 6, at 72; 2019 Report, *supra* note 6, at 55.

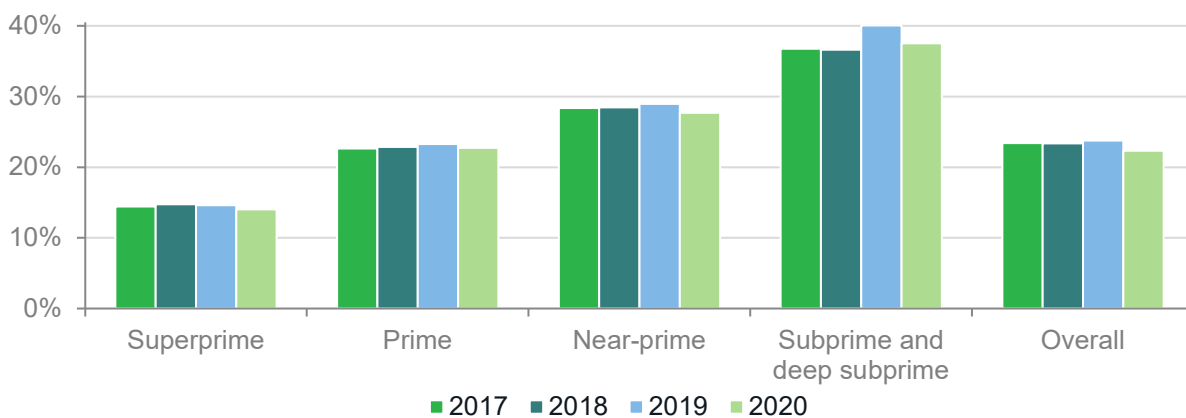
⁸³ For further discussion of variable rates, see Section 3.2.2.

Figure 1: TOTAL COST OF CREDIT, REVOLVING ACCOUNTS, GENERAL PURPOSE (Y-14+)



On the private label side, TCC on revolving accounts similarly rose in 2019 before receding in 2020, both overall and for every credit tier except superprime. Despite some narrowing over the last few years, TCC remains consistently higher, both overall, and within every credit tier, on private label accounts, as compared to general purpose accounts. As with general purpose cards, fee costs on private label cards have also been roughly stable on net or declining between 2017 and 2020. In 2015, the overall gap in TCC was 8.2 percentage points between the two card types. By 2020, this had fallen to 4.6 percentage points.

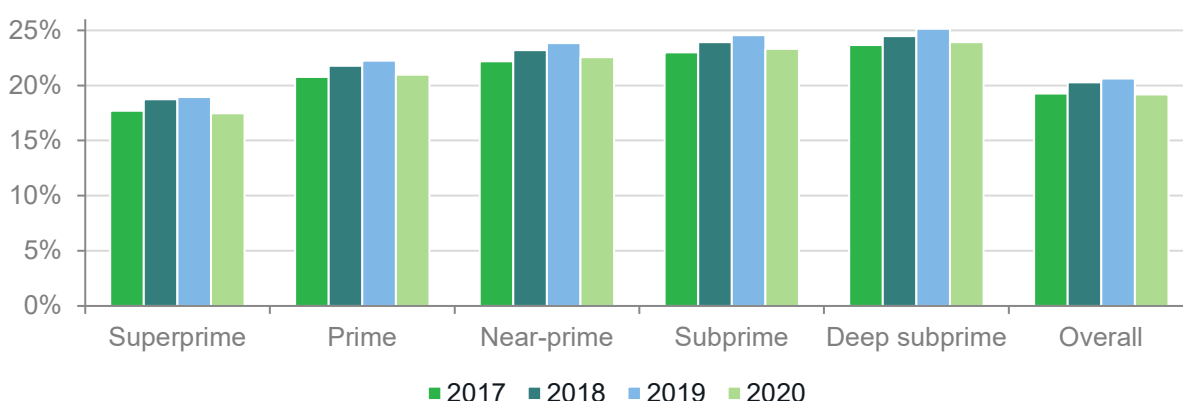
Figure 2: TOTAL COST OF CREDIT, REVOLVING ACCOUNTS, PRIVATE LABEL (Y-14+)



3.2 Interest charged

Interest charges increased in 2019 before receding in 2020. Both non-promotional retail annual percentage rates (APR)s and effective interest rates (EIR) on consumer credit cards followed this pattern.⁸⁴ In 2020 the average APR for general purpose and private label cards fell to 19.2 percent and 25.7 percent, respectively. As with TCC, the fall in interest charges is in part the result of changes in prevailing market interest rates.⁸⁵

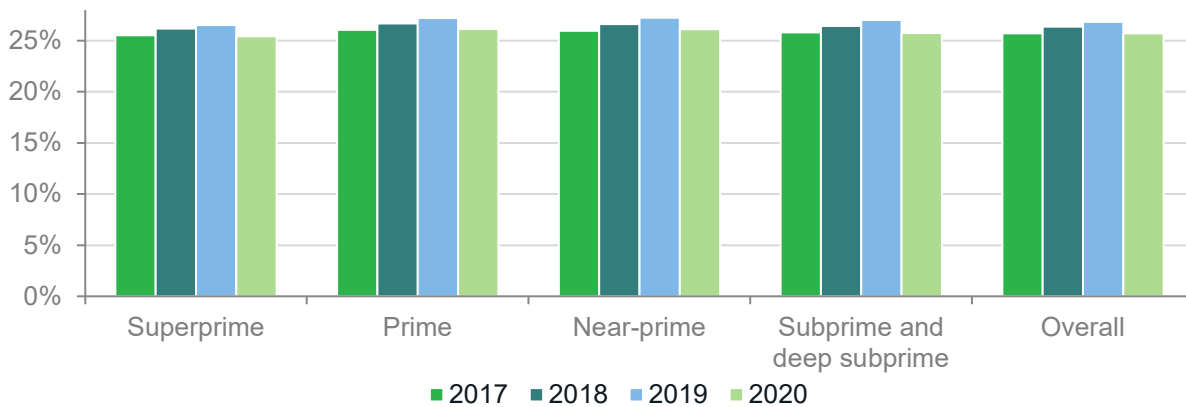
Figure 3: AVERAGE APR, GENERAL PURPOSE (Y-14+)



⁸⁴ For closed-end loan products, the APR captures certain fees as well as the interest rate. 15 U.S.C. § 1606(a)(1) (2012); 12 CFR 1026.22(b). However, for open-end credit, including credit cards, the APR is calculated using the periodic rate. 15 U.S.C. § 1637 (a)(4), (b)(5) (2012); 12 CFR 1026.2(a)(21), 1026.14.

⁸⁵ “Data from form FR 2835a indicate that the average credit card interest rate across all accounts decreased to 14.5 percent during 2020 before inching up to 14.7 percent in the fourth quarter of 2020. At the same time, the two-year Treasury rate—a measure of the baseline, or “risk free,” rate—fell to less than 0.2 percent.” Bd. Of Governors for the Fed. Rsrv. Sys., *Report to the Congress on the Profitability of Credit Card Operations of Depository Institutions - July 2021* (July 2021), <https://www.federalreserve.gov/publications/files/ccprofit2021.pdf>.

Figure 4: AVERAGE APR, PRIVATE LABEL (Y-14+)

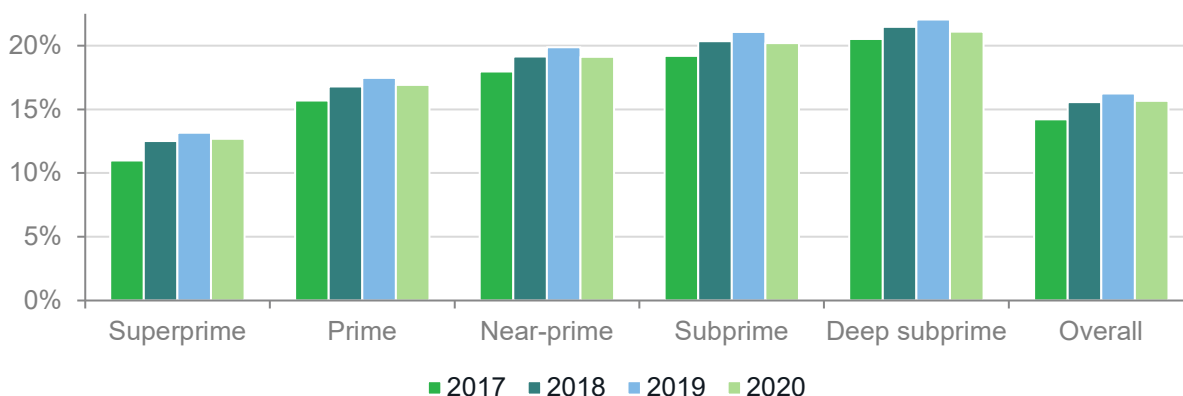


3.2.1 Effective interest rates

While APR is a useful barometer of issuer pricing strategies, “effective interest rate” may provide a better measure of the cost of interest to cardholders because EIR incorporates the effect of short-term promotions and cash advances. An EIR is computed by annualizing the total of all interest charges consumers paid divided by those consumers’ cycle-ending balances.⁸⁶ Figure 3 shows that EIRs for general purpose cards with revolving balances increased roughly 70 basis points from 15.6 percent in 2018 to 16.3 percent in 2019, before falling 60 basis points to 15.7 percent in 2020. Each credit tier experienced similar movements over that period.

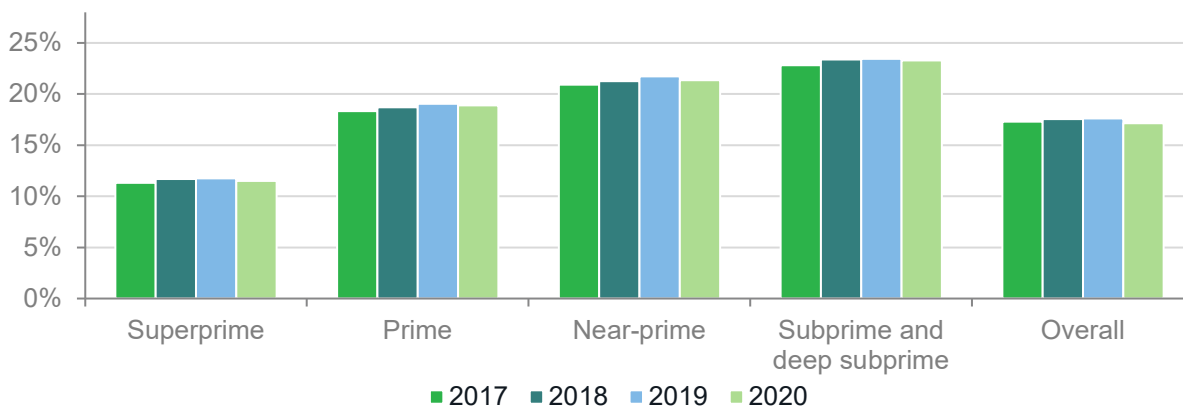
⁸⁶ EIRs differ from nominal rates for two reasons. First, consumers may have various balances on a single account (such as cash advances and balance transfers), not all of which are subject to the APR typically applied to purchases on that account. Second, consumers may have different patterns of payment and spending within a cycle. Due to the average daily balance method that most creditcard issuers use to calculate interest charges, this means that two accounts subject to the same retail APR that conclude a cycle with identical balances may nevertheless properly be assessed different interest charges as a result of differences in the composition and fluctuation of those balances over the course of the cycle.

Figure 5: EFFECTIVE INTEREST RATE, REVOLVING ACCOUNTS, GENERAL PURPOSE (Y-14+)



The picture for private label is different, with EIRs across the period staying mostly flat from 2015 to 2018 before declining slightly in 2020. As the next subsection shows, this contrast is partly because fewer private label cards are priced with a variable rate, so fewer private label cards benefitted from the index interest rate declines in 2020.

Figure 6: EFFECTIVE INTEREST RATE, REVOLVING ACCOUNTS, PRIVATE LABEL (Y-14+)



3.2.2 Upward repricing

Upward repricing declined to near-zero in 2019 and 2020, both because index interest rates have declined over this period and the CARD Act continues to restrict upward repricing outside of certain limited exceptions. Bureau data suggests that most account repricing is driven by the variable rate exception, which permits card issuers to increase the APR when the rate varies according to a publicly-available index not under the issuer's control and there is an increase in

that index.⁸⁷ As of the end of 2020, more than 90 percent of general purpose and less than half of private label balances in the Y-14 were carried on “variable rate” cards of this kind.

Unlike in prior years, declines in interest rates have reduced the APRs on many cards in the past two years, reducing the cost of credit card borrowing for many consumers. The Bureau estimates that the five rate decreases by the Federal Reserve from early-2019 through 2020 led to a cumulative roughly \$18 billion that credit card borrowers did not pay over that period.⁸⁸

A second notable exception called the “delinquency exception” permits issuers to increase rates when a consumer does not pay at least the minimum periodic payment within 60 days after it is due.⁸⁹ Issuers are also required to provide consumers experiencing repricing due to delinquency a notice including a statement of the reason for the increase, and include notification that the increased rate will cease to apply if the issuer receives six consecutive required minimum periodic payments on or before the payment due date.⁹⁰ For consumers that meet the six timely minimum payments requirement, issuers are required to reduce that rate.⁹¹ Issuers must also conduct a periodic review based on certain factors, and reduce the annual percentage rate applicable to the consumer’s account, as appropriate⁹².

⁸⁷ 12 CFR 1026.55(b)(2). For more on CARD Act limits on repricing, see the 2013 Report, *supra* note 6, at pages 11, 27-29. Issuers that use variable rate pricing mostly rely on *The Wall Street Journal*’s U.S. prime rate. A small percentage of the accounts, however, are linked to the London interbank offered rate (LIBOR). The status of LIBOR is in flux, which creates certain risks for cards linked to LIBOR. See Appendix A at Figure 1 for a chart showing changes in the federal funds rate and the associated prime rate.

⁸⁸ This calculation uses historical quarterly balances multiplied by the cumulative declines in rates from 2019 to 2020, assuming no consumer response to the rate changes. If consumer borrowing patterns changed in response, the actual impact may be different

⁸⁹ 12 CFR 1026.55(b)(4).

⁹⁰ *Id.*

⁹¹ *Id.*

⁹² 12 CFR 1026.59. Some issuers have failed to implement this provision and have since provided compensation to impacted cardholders. See Consent Order at 3-9, *In re CITIBANK N.A.*, 2018-CFPB-0003 (Jun. 29, 2018), https://files.consumerfinance.gov/f/documents/bcfp_citibank-na_consent-order_2018-06.pdf

3.3 Fees assessed

Collectively, fees comprise just under one-fifth of total consumer costs and for consumers who exclusively transact, fees are the primary source of direct cost. In 2020, cardholders were assessed \$20.8 billion in fees, down from \$23.6 billion in 2019, due in large part to significant increases in fee waivers during the pandemic.⁹³ Fees take a variety of forms including annual fees, transactional fees (*e.g.*, for cash advances), and penalty fees (such as late fees or over-limit fees). The CARD Act imposed several substantive pricing controls on both the amounts of penalty fees consumers could be charged and the conditions under which such fees could be imposed.⁹⁴

3.3.1 Total fees

Measured as a share of overall account balances, total fees on revolving accounts declined in 2020 on both general purpose and private label accounts but remain higher for private label accounts. Relative to balances, fees incurred on private label accounts that revolve are higher than on general purpose accounts that do so.⁹⁵ For private label accounts, fees were equivalent to 5.2 percent of balances as of the end of 2020, down from 6.2 percent in 2019; on general purpose, they were 2.0 percent of balances, down from 2.2 percent.

Within certain credit tiers, however, the fee picture is changing. Figure 7 shows that general purpose accounts held by consumers with deep subprime credit scores saw fee-to-balance ratios fall the most in 2020, from 10.9 to 9.8 percent, continuing a trend observed since 2015 when the ratio was 12.1 percent. Even so, these tiers have fee ratios that are several multiples of those for

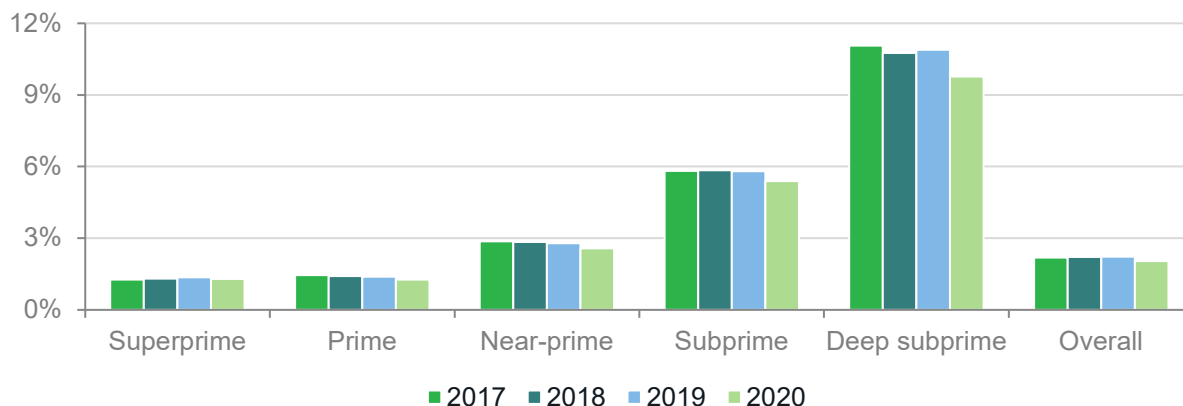
⁹³ Total fee amount is based on data collected from banks represented by the Y-14+ collection. *See* Section 1.3.1 for more information about the Bureau's data sources.

⁹⁴ *See, e.g.*, 15 U.S.C. §§ 1637(k), (n), 1665d (2012). CARD Act pricing restrictions have resulted in a substantial decline in overall fee costs to consumers since the pre-CARD Act period. *See* 2013 Report, *supra* note 6, at 34. CARD Act fee restrictions, of course, may have led to compensating changes in interest rates. For example, one commenter asserts that changes brought about by the CARD Act have resulted in higher interest rate margins "as issuers sought alternative ways to manage portfolio-wide risk." *See* ABA Comment Letter, at 2.

⁹⁵ This is in part the product of lower average balances on private label accounts. (Section 2.2.1 contains data on average account balances for different card types, by credit tier.) The Bureau's 2019 Report contains more information on this point. *See* 2019 Report, *supra* note 6, at 32-33.

accounts held by consumers with higher credit scores. Similarly, fee-to-balance ratios for private label accounts dropped in 2020 for all credit score tiers. Total balances decreased in 2020 as discussed in Section 2.2, but fees fell further as a result of, among other pandemic-era effects, fee waivers.⁹⁶

Figure 7: TOTAL FEES INCURRED IN THE YEAR AS A PERCENTAGE OF AVERAGE CYCLE-ENDING BALANCES, REVOLVING ACCOUNTS, GENERAL PURPOSE (Y-14+)



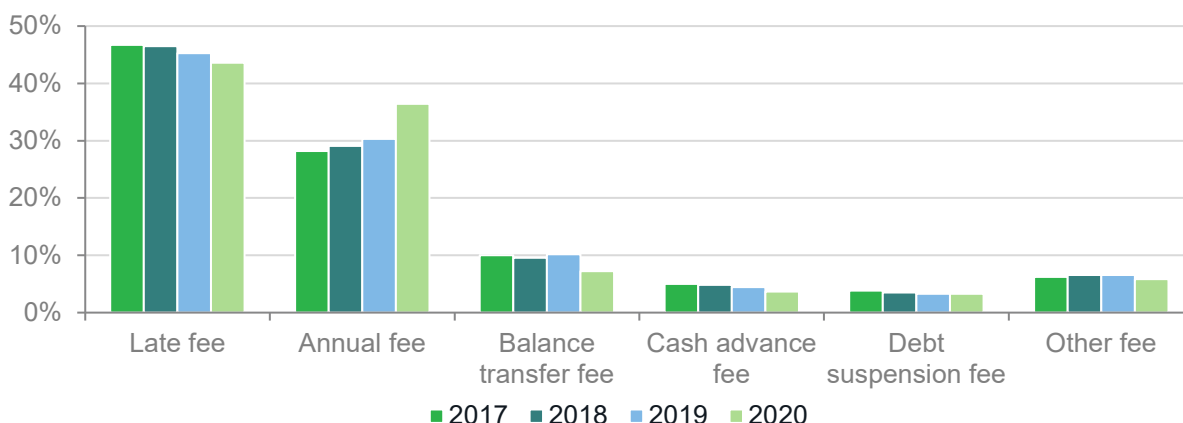
3.3.2 Fee composition

Over the last few years, fee composition has changed relatively little. Figure 8 shows trends for general purpose cards over this period. The largest change is the increase in annual fees as a share of total fees. Annual fee trends are covered in more detail in the next subsection below. This increase comes largely at the expense of late fees and balance transfer fees, even as the number and volume of annual fees have increased. Figure 8 also shows that several other fees remain prevalent on general purpose cards, including fees for balance transfers and cash advances.⁹⁷

⁹⁶ For more on fee waivers, *see* Section 5.5.

⁹⁷ For more information on cash advance and balance transfer trends, *see* Sections 5.2 and 5.3.

Figure 8: SHARE OF TOTAL FEES COSTS INCURRED BY TYPE OF FEE, GENERAL PURPOSE (Y-14+)



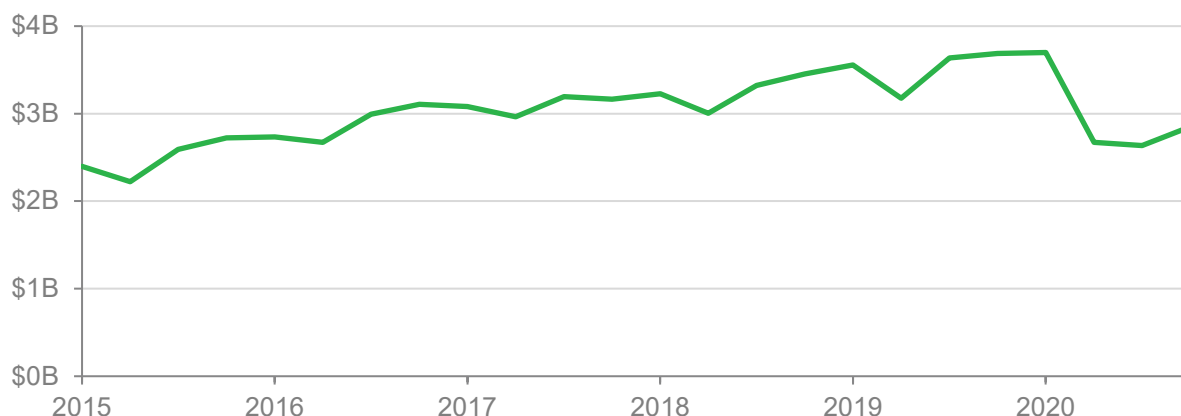
For private label cards, late fees make up the overwhelming majority of all fees assessed—89 percent in 2020. This represents a slight decrease over the last two years, from 91 percent in 2018.

3.3.3 Late fees

In a reversal of consistent growth trends, total late fee volume decreased in 2020. Late fee reductions can be attributed to a combination of factors related to the pandemic, such as economic impact payments, shifts in consumer behavior such as spending, saving, and repayment, and late fee reversals and waivers.⁹⁸ Issuers in the Y-14+ assessed nearly \$14 billion in late fees in 2019, compared to less than \$12 billion in 2020, as shown in Figure 9. The share of card accounts held by consumers in each credit tier declines steeply with scores, but late fee volumes are relatively similar across these tiers. Consumers with superprime scores hold 59 percent of card accounts but pay only 21 percent of late fee volumes; by contrast, consumers with deep subprime scores hold about 6 percent of card accounts but generate 24 percent of late fee volumes.

⁹⁸ For more information on card issuer responses to COVID-19, see Section 5.5.

Figure 9: LATE FEE VOLUME (Y-14+)



Issuers generally assess a late fee to consumers who do not make at least their minimum payment by the monthly due date. These and other “penalty” fees were targeted by specific CARD Act provisions, and the dollar amounts of such fees are now subject to CARD Act restrictions.⁹⁹ In general, these fees have to be “reasonable and proportional.”¹⁰⁰ There is a regulatory “safe harbor” for specific fee amounts, which the Bureau adjusts for inflation annually.¹⁰¹ Initially, the safe harbor was set at \$25 for an initial late fee and \$35 for a second late fee within six billing cycles of a prior late fee. In 2021, the safe harbors are \$29 and \$40 respectively.¹⁰²

Since 2018, average late fees have continued to increase, from about \$28 to \$31 in 2020. They nevertheless remain below their nominal pre-CARD Act level of \$33 in 2008, and well below the

⁹⁹ 15 U.S.C. § 1665d(a) (2012).

¹⁰⁰ *Id.*; 12 CFR 1026.52(b).

¹⁰¹ Regulation Z requires the Bureau to annually adjust the safe harbors to reflect changes in the Consumer Price Index. 12 CFR 1026.52(b)(1)(ii)(D). The Bureau has also introduced a tool to promote transparency in this calculation. Bureau of Consumer Fin. Prot., Office of Compliance & Guidance, *Calculating Adjustments to the Safe Harbor Limits on Credit Card Issuer Fees*, <https://www.consumerfinance.gov/compliance/compliance-resources/consumer-cards-resources/truth-lending-annual-threshold-adjustments/> (last visited Jan. 11, 2021). The most recent safe harbor amounts went into effect in January 2021. 83 FR 43503 (Aug. 27, 2018).

¹⁰² 12 CFR 1026.52(b)(1)(ii); Comment 52(b)(1)(ii)-2.i.

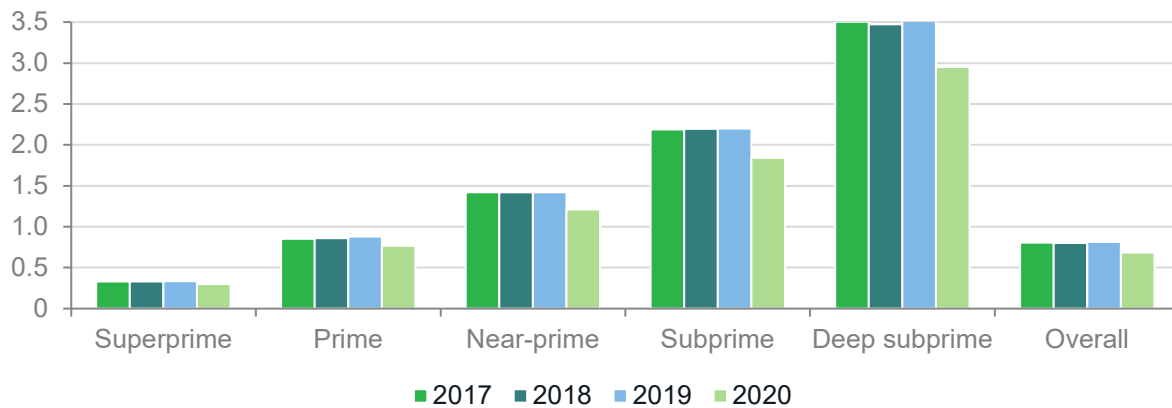
\$40 inflation-adjusted figure in 2020 dollars.¹⁰³ Since 2014, when the original penalty safe harbors first increased for inflation, most large issuers have taken advantage of the increased safe harbors by increasing their fee amounts. However, issuers appear to vary in the speed and consistency with which they implement increases across their products and portfolios. Additionally, issuers may as a courtesy offer to reverse late fee charges if the cardholder has a history of paying on time, particularly for cardholders with superprime scores. In combination with the two-tier safe harbor (one amount for the first instance, and a different amount for subsequent instances within one of the next six billing cycles), these practices make it challenging to assess what drives changes in average late fee amounts overall.

Late fee incidence declined somewhat in 2020 likely due to federal pandemic relief and card issuer fee waivers, but late fees continue to represent the highest share of total fee costs incurred, especially for cardholders with lower credit scores or those who carry balances on private label cards.¹⁰⁴ On average, consumers incur less than one late fee per year per general purpose account. This rate remained steady from 2015 to 2019, before declining in 2020. Accounts held by consumers in lower credit score tiers incur more late fees than those in higher tiers. For example, accounts held by consumers with deep subprime credit scores average more than three late fees a year. Accounts held by consumers with superprime or prime scores average less than one. Late fee incidence rates are higher for private label accounts, both overall and within every credit tier. For example, private label accounts held by consumers with deep subprime scores averaged more than four late fees per year in 2020.

¹⁰³ See 2013 Report, *supra* note 6, at 23. The Bureau of Labor Statistics reports the average CPI-U in 2008 was 215.3, compared to 258.8 in 2020. See *supra* note 54.

¹⁰⁴ For more information regarding card issuer responses to COVID-19, see Section 5.5.

Figure 10: LATE FEE INCIDENCE, GENERAL PURPOSE (Y-14+)

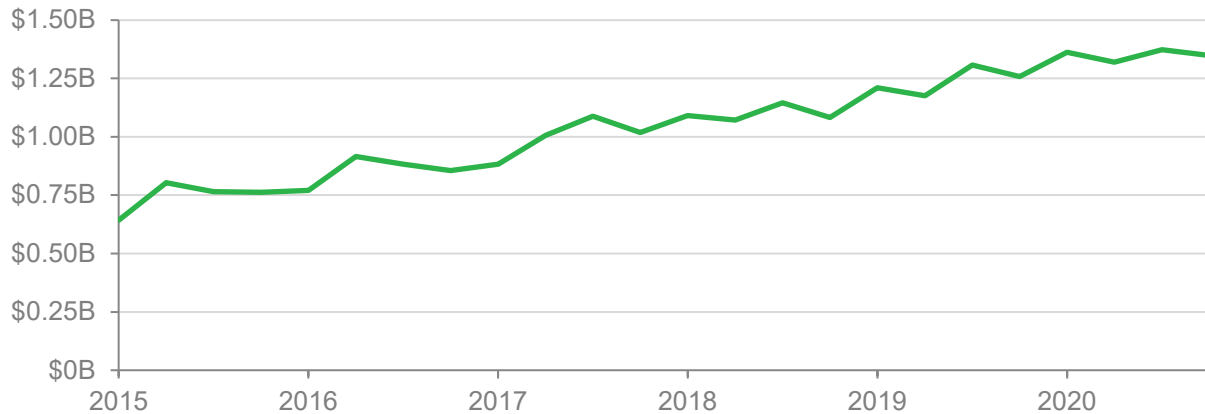


3.3.4 Annual fees

Annual-fee volume has risen significantly over the last few years. For issuers in the data set, annual-fee revenue totaled roughly \$600 million in the first quarter of 2015; annual-fee revenue topped \$1.3 billion in every quarter of 2020.¹⁰⁵ As discussed further below, this is a function of increases in the average annual fee for accounts charged a fee, but is also due to steady quarterly increases in the total number of accounts incurring an annual fee, even while the percentage of accounts with such fees has decreased.

¹⁰⁵ As used in this report, an “annual fee” refers to any participation or maintenance fee assessed to the consumer as a condition of holding the general purpose card account, regardless of any pattern of usage.

Figure 11: ANNUAL-FEE VOLUME, GENERAL PURPOSE (Y-14+)

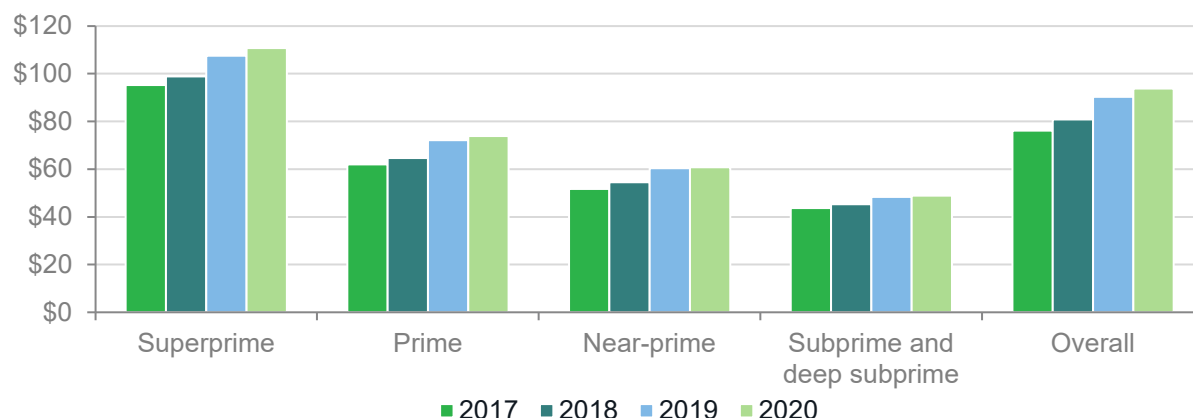


Average annual fees have been rising in all credit tiers, but the products received differ across credit score tiers. As shown in Figure 12, annual fees averaged roughly \$94 per card with a fee in 2020, and that number has been increasing steadily for all credit score tiers. In particular, annual-fee accounts held by consumers with superprime scores averaged nearly \$111 in annual fees in 2020, reflecting the increased prevalence in the past two years of richer rewards credit cards that carry higher annual fees. Revenue from cards held by consumers with prime scores is typically returned to cardholders to varying degrees in the form of rewards.¹⁰⁶ In contrast, cardholders in lower credit tiers may pay annual fees to offset credit risk or higher operating costs relative to lower revolving balances.¹⁰⁷

¹⁰⁶ For more on rewards, *see* Section 5.1.

¹⁰⁷ *See* 2017 Report, *supra* note 6, at 91-92.

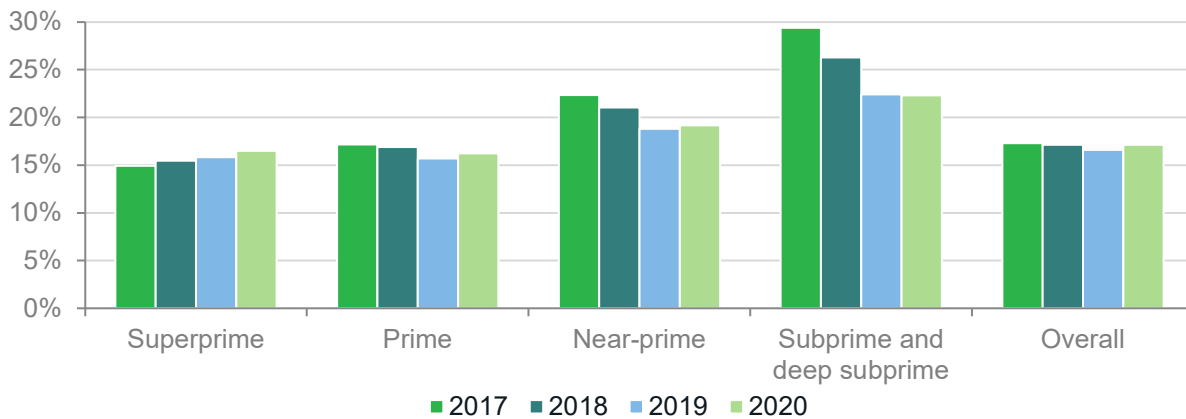
Figure 12: AVERAGE ANNUAL FEE, GENERAL PURPOSE ACCOUNTS CHARGED AN ANNUAL FEE (Y-14)¹⁰⁸



While average annual fees have been rising, annual fees have steadily become less common for general purpose card accounts held by cardholders in every credit tier except superprime since 2015. Roughly 22 percent of subprime and deep subprime card accounts had an annual fee in 2020, compared to nearly 39 percent in 2015. Similarly, 19 percent of near-prime accounts carried an annual fee in 2020, compared to 27 percent in 2015. In part, the reduction in annual-fee prevalence for cardholders with below-prime scores was driven by an increase in the share of no-annual-fee card originations to consumers in these score tiers. Since 2016, however, most of that increase was due to originations of no-annual-fee secured cards which, while they do not charge a fee, still require some money be held as a deposit.

¹⁰⁸ Average annual fee is calculated as the total number of months in each year and credit tier that an account with an observed annual fee is open times the annual fee observed for those accounts divided by the total number of account months in each year and credit tier that those annual fee-paying accounts are open.

Figure 13: ANNUAL-FEE PREVALENCE, GENERAL PURPOSE (Y-14)



3.3.5 Other fees

The quarterly volume of other fees issuers collect on credit cards has not changed significantly in recent years. This fee category includes fees for payments returned for insufficient funds (NSF fees) or exceeding the credit limit (over-limit fees); debt suspension fees; balance transfer fees; and cash advance fees, among others. The 2015 Report showed that these fees, considered collectively, have steadily declined in prevalence since 2008.¹⁰⁹ Over-limit fees that were common prior to the implementation of the CARD Act remained almost nonexistent in 2019 and 2020.¹¹⁰

¹⁰⁹ See 2015 Report, *supra* note 6, at 71-72.

¹¹⁰ Section 3.3.5 of the 2017 Report notes that many issuers appear to have simply ceased assessing over-limit fees altogether, rather than maintain an opt-in regime. See 2017 Report, *supra* note 6, at 96-97.

4. Availability of credit

As in prior reports, this section examines measures relating to credit card availability. It explores two broad areas: first, new account origination; second, credit limits and line changes after origination.¹¹¹ To do so, it tracks the credit card account life cycle. It starts with marketing and consumer applications across a range of channels. Next, it addresses issuer approvals as well as new account and line origination. Finally, this section ends with credit lines available to consumers and issuer line management of existing accounts. The interaction between reduced marketing efforts, fewer applications, and lower approval rates caused a dramatic decrease in originations in 2020. While credit line decreases (CLD) increased for consumers with below-prime credit scores, issuers did not substantially deviate from previous line management trends during the pandemic.

4.1 New accounts

The analysis below examines patterns of credit card marketing and consumer credit shopping, consumer applications, approval rates for new accounts, and the volume of new account and line origination. Where possible, the analysis reviews how these measures vary by credit score tier as well as by product and marketing channel.

¹¹¹ Issuers assign a credit line limit to each new account that determines how much a consumer generally is permitted to borrow on the account, at least initially. In subsequent periods issuers may adjust the credit line, as discussed in more detail in Section 4.2.3.

4.1.1 Marketing and comparison shopping

Credit card issuers adjust their marketing and origination practices based on changes in consumer behavior, industry competition, and the economy. Issuers primarily solicit consumer demand for credit cards through broad-based advertising like television commercials, and through targeted marketing. For years, issuers have increased credit card marketing across digital platforms, and credit card advertising on social media is becoming more prominent, as consumers spend more time online.¹¹² Yet in 2020, issuers reduced marketing across the board in accordance with the increased pandemic-related economic uncertainty.¹¹³

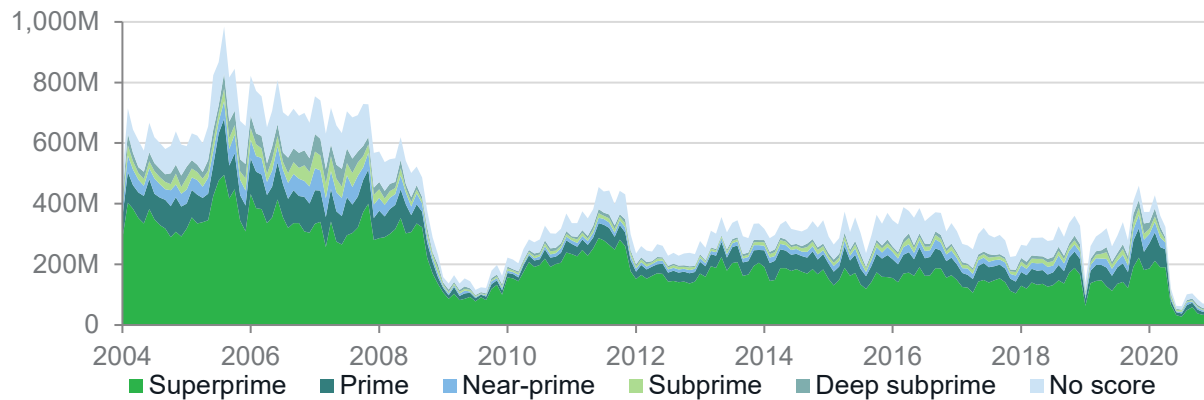
While credit card issuers have generally sent less mail to consumers since the Great Recession, direct mail solicitations fell to new lows after the pandemic's onset and persisted at this reduced level for the remainder of 2020. On average, issuers sent 311 million direct mail solicitations per month in 2019, up 12.2 percent from 2017 levels but still less than half of pre-2009 monthly volumes. However, in May 2020, this metric dropped to 121 million then further plummeted 48 percent in June. Mail volume related to acquisitions reached a low of 61.6 million in July, declining more than 80 percent from its March 2020 level. As shown in Figure 1, direct mail solicitations had yet to recover by the end of 2020 and remained below 100 million.¹¹⁴

¹¹² For more information on digital servicing and adoption of new technologies, see section 7.2. *See also* Michael J. Wolf, *How Covid-19 Has Transformed the Amount of Time We Spend Online*, Wall St. J. (Aug. 7, 2020), <https://www.wsj.com/articles/how-covid-19-has-transformed-the-amount-of-time-we-spend-online-01596818846>.

¹¹³ Issuers note decreasing card acquisition efforts in Q2 2020. “The majority of the expense reduction was in brand marketing and card acquisition costs as we align marketing spend with the impacts of the economic environment and tightened credit criteria.” Discover Financial Services, *Q2 2020 Results – Earnings Call Transcript*, Seeking Alpha (July 23, 2020), <https://seekingalpha.com/article/4360233-discover-financial-services-dfs-ceo-roger-hochschild-on-q2-2020-results-earnings-call>; “[W]e dramatically reduced our proactive marketing efforts for new card acquisition and reinvested in value proposition enhancements, resulting in a 16% decline in marketing expenses in the second quarter.” American Express, *Q2 2020 Results – Earnings Call Transcript*, Seeking Alpha (July 24, 2020), <https://seekingalpha.com/article/4360706-american-express-axp-ceo-steve-squeri-on-q2-2020-results-earnings-call-transcript>.

¹¹⁴ Data made available to the Bureau by Mintel Comperemedia and Competiscan.

Figure 1: MONTHLY MAIL VOLUME (COMPETISCAN, MINTEL COMPEREMEDIA)¹¹⁵



Once a consumer is actively looking for a new credit card, third-party comparison sites (TPC sites) offer information intended to make it easier for consumers to compare credit cards.¹¹⁶ Some sites let consumers personalize the card offerings shown by using data provided by the consumer or third-party information authorized by the consumer. While that information helps personalize recommendations, some consumers may ultimately find their application does not get approved for a site-listed card for which they apply.

4.1.2 Applications

U.S. consumers submitted over 140 million credit card applications in 2020, a significant decline from the over 172 million applications submitted in 2019.¹¹⁷ To apply for a card, consumers submit an application through one of several channels, such as going online, using a mobile app, calling the issuer, or by walking into a bank branch or retail store to fill out a paper or digital application in-person. The issuer then decides whether to issue a credit card based on

¹¹⁵ Data following October 2019 were supplied by Competiscan. Data prior to this date were supplied by Mintel Comperemedia.

¹¹⁶ For more on third-party comparison sites, see 2017 Report, *supra* note 6, at page 265.

¹¹⁷ Bureau research on credit applications found that, by the spring of 2021, credit card applications were back to pre-pandemic levels. See Nagypál, *supra* note 24, at 3.

its internal underwriting process.¹¹⁸ Issuers consider economic and market conditions when determining whether to loosen or tighten underwriting standards for approving individual card applicants.

Figure 2 shows that trends in application volume in 2019 differed by credit tier but that the pandemic led to a dramatic and generalizable decrease in demand for general purpose cards.¹¹⁹ Compared to 2017 levels, application volume remained steady or increased for all tiers but near-prime in 2019, as application volume for consumers with no score and with subprime or deep subprime scores surpassed 2016 highs.¹²⁰ Application growth halted for general purpose cards in 2020, as the total volume for mass market issuers was 59 million, falling in every score tier and 26 percent overall. Near-prime, subprime, and deep subprime credit score tiers saw the greatest percent change year-over-year. The previously discussed, industry-wide reduction in marketing expenditure could explain part of this decline. Additionally, decreased household spending and increased government support could reduce the need for credit and partially explain the decline in applications during the pandemic.¹²¹

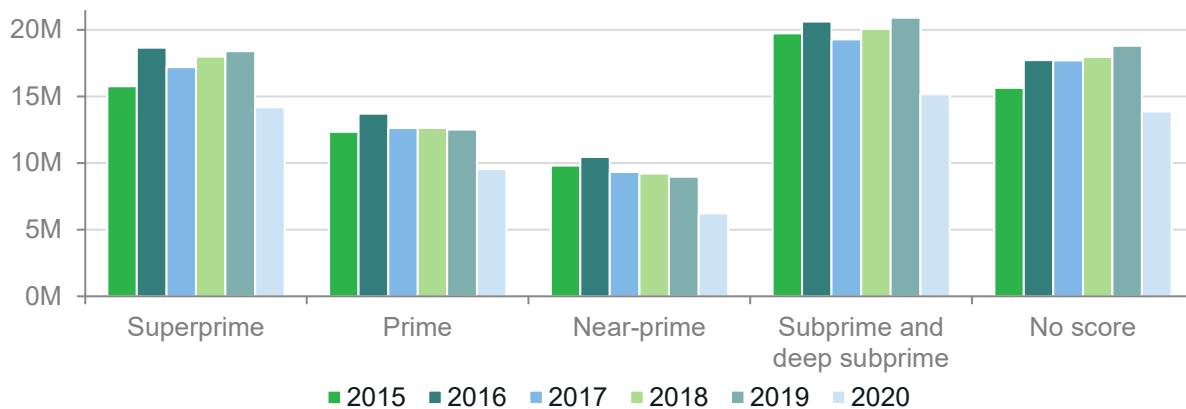
¹¹⁸ In addition to an issuer's internal processes, issuers are required to consider an applicant's ability to pay the minimum monthly payment on an account prior to opening a credit card account under an open-end (not home-secured) consumer credit plan or increasing a credit line on such an account. 12 CFR 1026.51(a)(1)(i) (2019).

¹¹⁹ "MMI" data are provided by a set of larger issuers that make up the substantial majority of the credit card market. Even so, these issuers may not be representative of other issuers.

¹²⁰ MMI data account for a smaller share of the overall market as they reach deeper into the credit spectrum. Accordingly, approval rate data in the two lowest score tiers has been combined.

¹²¹ See Alison Felix & Samantha Shampine, *Consumer Spending Declines, Shifts in Response to the Pandemic*, Fed. Rsr. Bank of Kansas City (Feb. 17, 2021), <https://www.kansascityfed.org/research/economic-bulletin/consumer-spending-declines-shifts-in-response-to-the-pandemic/>; Survey data suggest that demand for credit cards fell in 2020 and there was no meaningful increase in unmet credit need. See also Jessica Lu & Wilbert van der Klaauw, *Consumer Credit Demand, Supply, and Unmet Need during the Pandemic*, Fed. Rsr. Bank of New York (May 20, 2021), <https://libertystreeteconomics.newyorkfed.org/2021/05/consumer-credit-demand-supply-and-unmet-need-during-the-pandemic.html>.

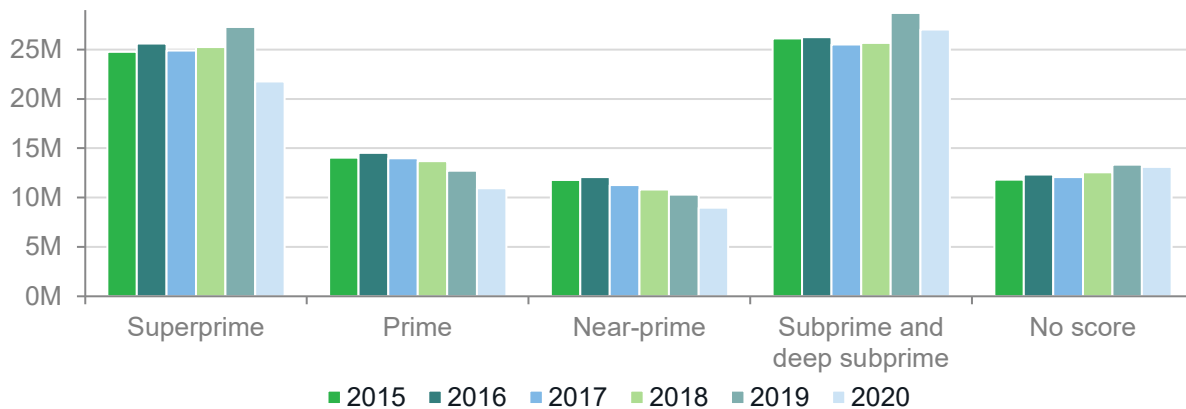
Figure 2: APPLICATION VOLUME FOR MASS MARKET ISSUERS, GENERAL PURPOSE (MMI)



The pandemic-related decline in retail application volume was smaller in magnitude than that of general purpose cards and driven by consumers with near-prime or higher credit scores.¹²² In 2020, consumers submitted over 81 million applications for retail cards to mass market issuers, down from 92 million retail card applications the year prior. As shown in Figure 3, both 2019 and 2020 application volume increased relative to 2018 levels for consumers with subprime and deep subprime credit scores and consumers with no score. Both overall and in every credit score tier, there were more applications for retail cards than general purpose cards in 2020, as has been historically true.

¹²² Sections 4.1.2 and 4.1.3 divide the market into “general purpose” and “retail,” which is slightly different from the “general purpose” and “private label” categorization used elsewhere in the report. See Section 1.3 for more information on these differences.

Figure 3: APPLICATION VOLUME FOR MASS MARKET ISSUERS, RETAIL (MMI)



DIGITAL APPLICATIONS

Applications can be submitted via a number of channels, though importantly there is some overlap (for example, a consumer may apply for a card digitally using a mobile device). In 2020, 88 percent of general purpose card applications were submitted digitally. In stark contrast, 55 percent of 2020 retail card applications were via digital channels. However, digital channel volume grew 34 percent year-over-year for retail applications, as this was the first year less than half of retail applications were submitted in person. This was largely affected by store closures during the pandemic as retail sales plunged.¹²³

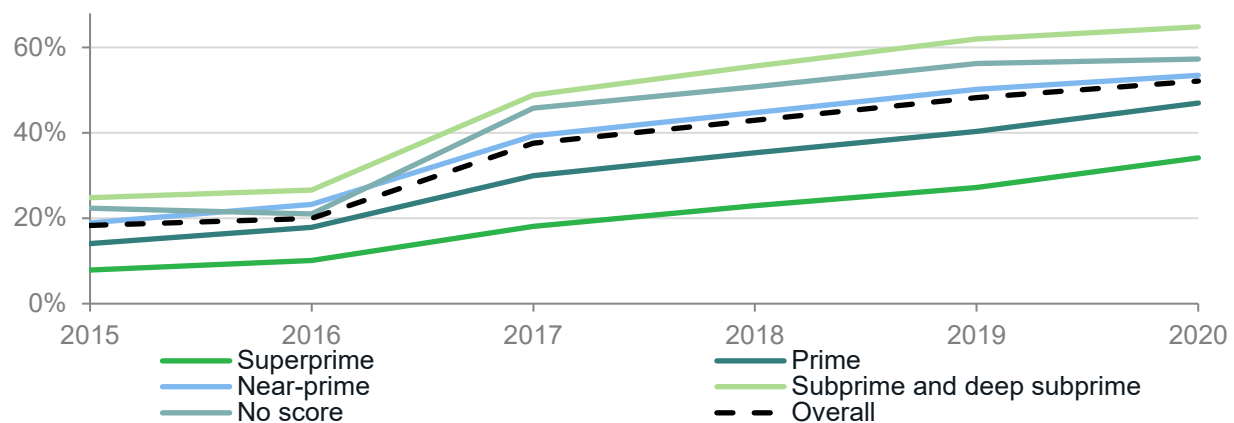
One subset of digital channel that has become increasingly prominent is mobile devices, as the majority of applications for general purpose cards are now submitted via phone or tablet. The mobile channel accounted for 52 percent of new applications in 2020, up from 43 percent in 2018.¹²⁴ As shown in Figure 4, the increasing percentage of applications from consumers with higher scores drove growth, as the share for consumers with both prime and superprime credit scores increased 7 percentage points in 2020. Despite this expansion, the share of superprime

¹²³ See Section 5.5 for more information on the impact of COVID-19. See also Alina Selyukh, *Pandemic Hits Spending Hard; 79% Dive In Clothing Sales Leads A Record Plunge*, Nat'l Pub. Radio (May 15, 2020), <https://www.npr.org/sections/coronavirus-live-updates/2020/05/15/856253115/retail-wipeout-sales-plunge-a-record-16-4-in-april>.

¹²⁴ Figures 4 through 11 rely on MMI data. The Bureau's MMI survey grouped mobile phones and tablets as "mobile devices."

applications via mobile device remains about half that of consumers with subprime or deep subprime scores. Meanwhile, the share of mobile applications for consumers with lower or no scores may be plateauing, as two-thirds of subprime and deep subprime applications are now submitted via mobile device. A decline in prescreened offers via mail and fewer applications submitted in person due to bank branch closures could explain the growing share of mobile applications.¹²⁵ Additionally, some new credit cards exclusively accepted applications through the mobile channel at their initial launches.¹²⁶

Figure 4: SHARE OF CREDIT CARD APPLICATIONS SUBMITTED VIA MOBILE DEVICES, GENERAL PURPOSE (MMI)



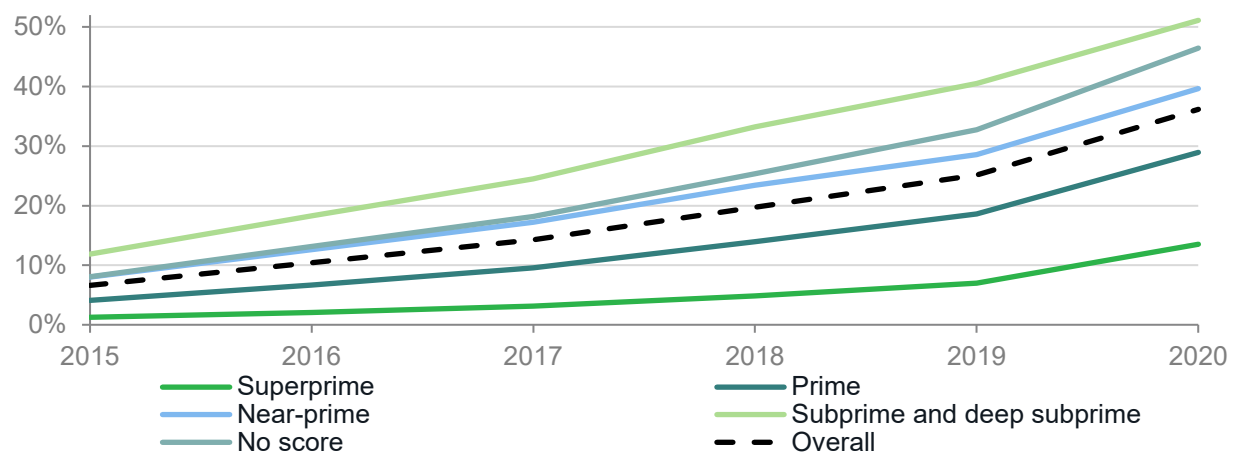
For retail cards, overall levels of mobile penetration remain lower than for general purpose cards, yet the trend toward mobile channels accelerated in 2020 after years of steady growth. Most retail applications by consumers with subprime and deep subprime scores now come from mobile devices. As shown in Figure 5, mobile penetration for applicants with higher scores remained at or below 40 percent. However, these tiers saw an increased share of applications

¹²⁵ See Orla McCaffrey, *People Aren't Visiting Branches. Banks Are Wondering How Many They Actually Need*, Wall St. J. (June 7, 2020), <https://www.wsj.com/articles/people-arent-visiting-branches-banks-are-wondering-how-many-they-actually-need-11591531200>.

¹²⁶ See Katie Deighton, *Venmo's New Credit Card Puts QR Codes Front and Center*, Wall St. J. (Oct. 7, 2020), <https://www.wsj.com/articles/venmos-new-credit-card-puts-qr-codes-front-and-center-11602064801>; see also Press Release, Apple, *Apple Card launches today for all US customers* (Aug. 20, 2019), <https://www.apple.com/newsroom/2019/08/apple-card-launches-today-for-all-us-customers/>.

submitted via the mobile channel. The year-over-year growth from 2019 to 2020 may reflect the diminished impact of point-of-sale applications due to pandemic-related store closures and an increased adoption of mobile apps by retailers.¹²⁷

Figure 5: SHARE OF CREDIT CARD APPLICATIONS SUBMITTED VIA MOBILE DEVICES, RETAIL (MMI)



TPC SITE APPLICATIONS

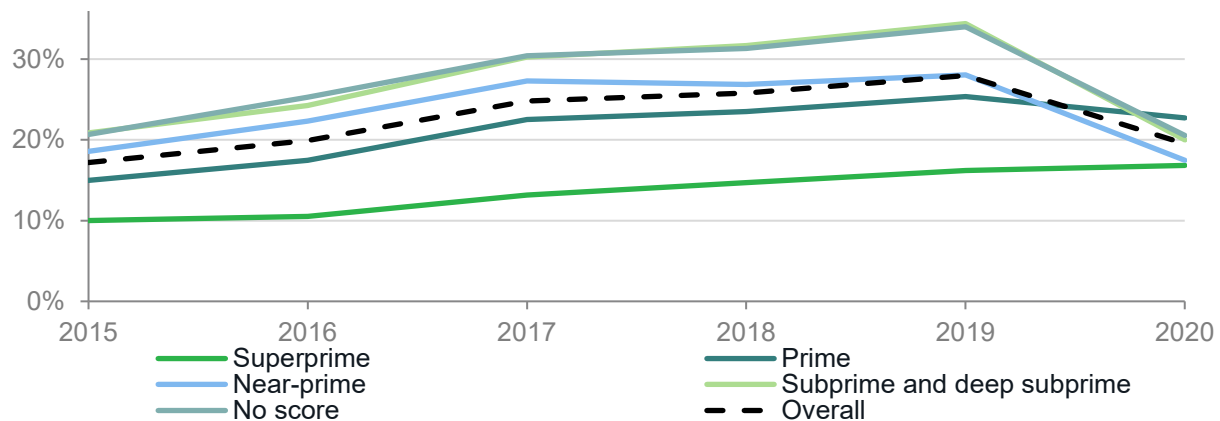
For the first time in 2020, the share of general purpose applications via the TPC site channel decreased.¹²⁸ Figure 6 reflects that, previously, consumers with lower scores were more likely to apply via a TPC site than those with higher scores. Now, both overall and for each credit score tier, about one in five consumers apply via TPC sites. Typically, TPC sites assist consumers in finding cards for which they are likely qualified when they seek credit. Additionally, some TPC sites advised consumers it might be more difficult to get approved for a credit card during the

¹²⁷ See Press Release, Synchrony, *Synchrony Expands Arsenal of Digital Payment Technology Solutions for Partners; Provides Touchless Shopping Options for Customers* (Sep. 29, 2020), <https://www.prnewswire.com/news-releases/synchrony-expands-arsenal-of-digital-payment-technology-solutions-for-partners-provides-touchless-shopping-options-for-customers-301140043.html>.

¹²⁸ An additional number of consumers review TPC sites before applying directly with the issuer. Those applications are not reflected in the TPC data below.

pandemic.¹²⁹ Warnings by TPC sites of lower issuer approval rates could partially explain the decrease in applications by consumers with subprime or deep subprime scores beyond a general decline in credit demand. In tandem, the increasing share of consumers with superprime scores applying via TPC site may be partially attributed to the decrease in direct card offers via mail typically aimed at this tier.

Figure 6: SHARE OF CREDIT CARD APPLICATIONS SUBMITTED VIA TPC SITES, GENERAL PURPOSE (MMI)



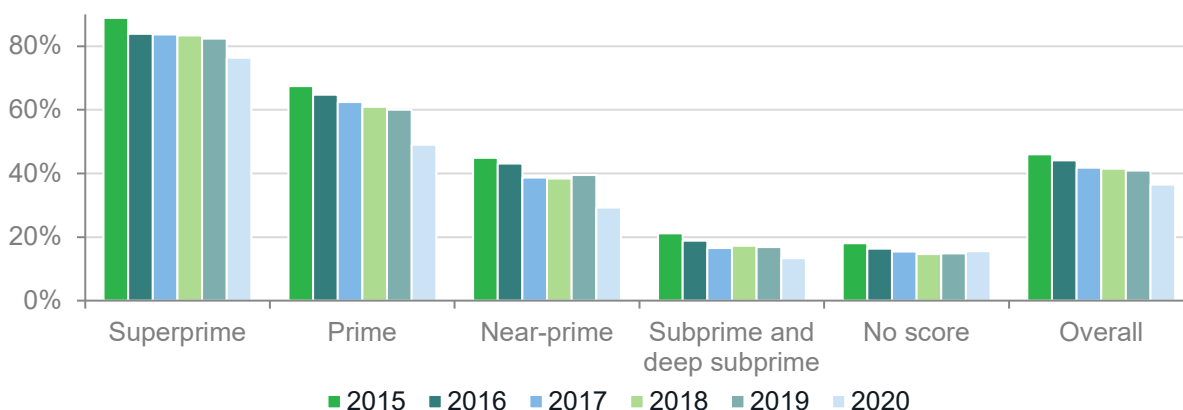
4.1.3 Approvals

Since 2015, approval rates on general purpose cards have declined. As shown in Figure 7, the pandemic accelerated this trend. The overall approval rate decreased from 41 percent in 2019 to 36 percent in 2020. Consumers with prime and near-prime credit scores saw the greatest reduction in approval rates of 11 and 10 percentage points respectively as institutions tightened underwriting in response to the pandemic. The Federal Reserve Board’s quarterly Senior Loan Officer Survey found that in the third quarter of 2020, 71.7 percent of senior loan officers at

¹²⁹ See Kimberly Palmer, *How to Increase Your Chances of Credit Card Approval*, NerdWallet (July 30, 2020), <https://www.nerdwallet.com/article/credit-cards/how-to-increase-your-chances-of-credit-card-approval>; see also Ethan Steinberg, *Why banks are struggling to assess creditworthiness during the coronavirus pandemic*, The Points Guy (July 7, 2020), <https://thepointsguy.com/news/why-banks-are-struggling-to-assess-creditworthiness-during-the-coronavirus-pandemic/>.

domestic banks reported tightening standards on credit card loans—the highest share in the survey’s two-decade history.¹³⁰

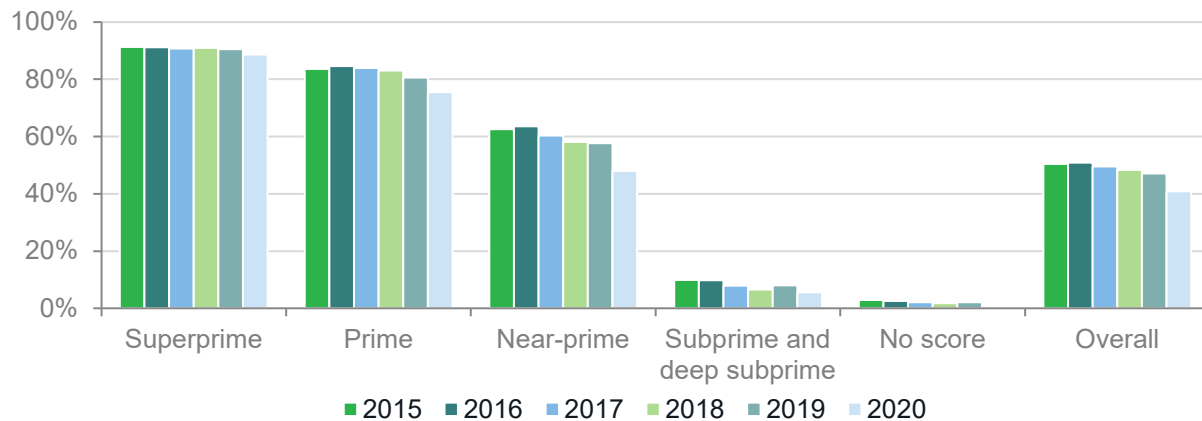
Figure 7: APPROVAL RATE, GENERAL PURPOSE (MMI)



Retail card approval rates were stable in 2019 and then dropped overall and in every credit tier in 2020, similar to general purpose. Consumers with near-prime scores experienced the largest decline, dropping from 58 percent in 2019 to 48 percent in 2020. For consumers with superprime scores, the approval rate for retail card applications decreased by 2 percentage points. Approval rates for subprime and deep subprime tiers and consumers dropped year-over-year but were on par with 2018 levels. While issuers tightened underwriting overall, this suggests that consumers with prime and near-prime scores were most affected by increased rejection rates as their applications may have been approved in prior years.

¹³⁰ However, the deterioration in credit performance feared early in the pandemic did not materialize, and issuers reported a net loosening of standards in 2021. Bd. Of Governors for the Fed. Rsrv. Sys., *Senior Loan Officer Opinion Survey on Bank Lending Practices* (May 20, 2021), <https://www.federalreserve.gov/data/sloos/sloos-202104-chart-data.htm>.

Figure 8: APPROVAL RATE, RETAIL (MMI)

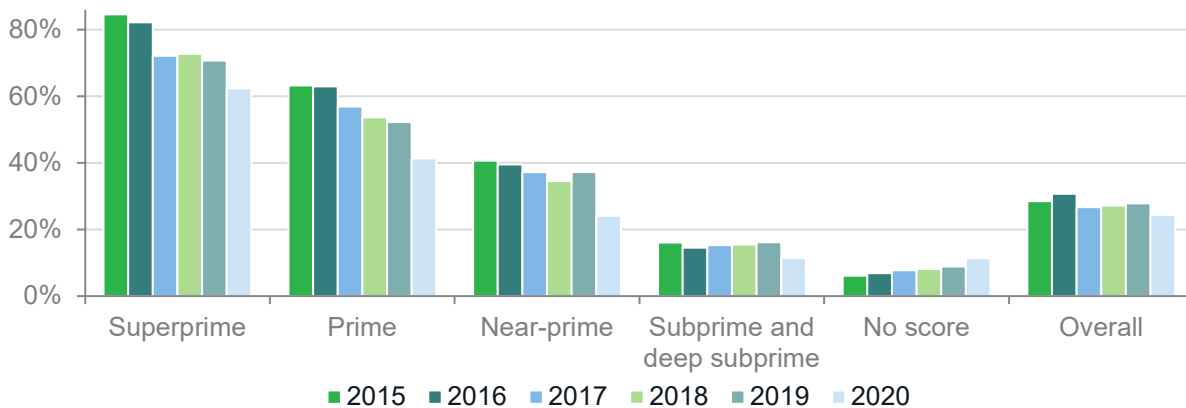


Approval rates vary substantially by application channel. Pre-screened solicitations and mail channels tend to have the highest approval rates. Rates for mobile and digital channels are typically lower but vary by credit tier. TPC site approval rates remain higher than mobile approval rates both overall and in every score tier for general purpose cards.

MOBILE APPROVALS

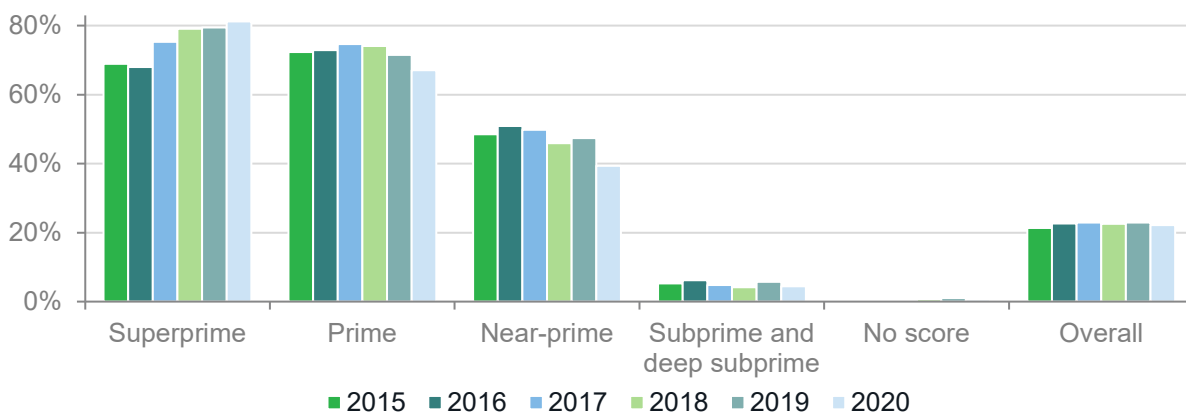
Slightly under one quarter of all consumers applying via mobile device are now approved for both general purpose and retail cards. However, approval trends differ by card type and credit score tier. As shown in Figure 9, higher approval rates of near-prime and lower credit score tiers drove an overall marginal increase in general purpose approvals in 2019. Yet this trend reversed in 2020 as all consumers except those with no score saw a substantial drop in approvals for applications submitted via mobile device.

Figure 9: APPROVAL RATE FOR APPLICATIONS SUBMITTED VIA MOBILE DEVICES, GENERAL PURPOSE (MMI)



On the retail side, the overall rate has remained steady since 2015 but its composition by credit score tier has shifted. As shown in Figure 10, the share of superprime approvals increased in 2020 as the approval rate for every other credit score declined. For consumers with near-prime scores and above, mobile approval rates remain higher for retail than for general purpose card applications.

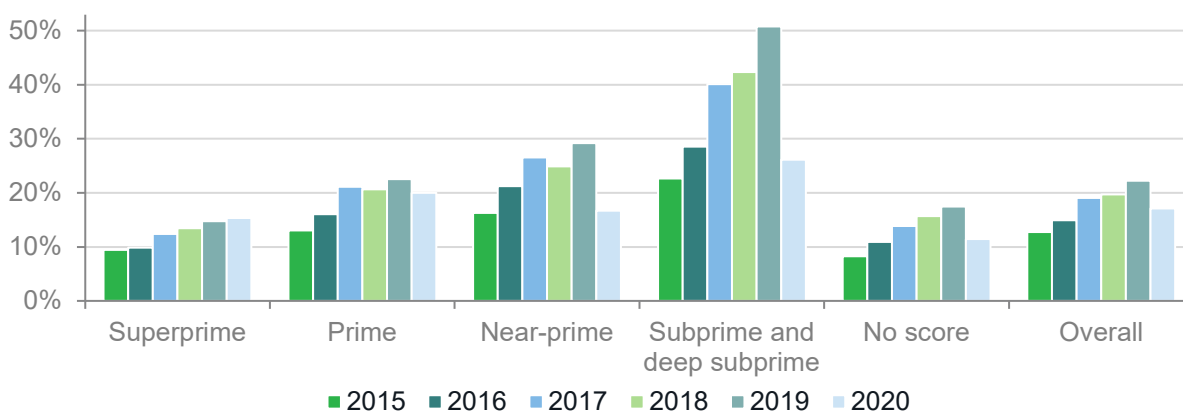
Figure 10: APPROVAL RATE FOR APPLICATIONS SUBMITTED VIA MOBILE DEVICES, RETAIL (MMI)



TPC SITE APPROVALS

TPC sites directly facilitated an all-time high of over 7 million approvals in 2019, but the number of mass market approvals via TPC site decreased 49 percent in 2020. This decline can be almost entirely attributed to the 48 percent reduction in applications via the TPC site channel discussed above. The approval rate via TPC site channel approvals overall is 32 percent, which has been consistent for the past four years. Approval rates declined for every credit tier in 2020 yet consumers with lower scores still had a greater chance of approval via TPC site than overall.

Figure 11: SHARE OF CREDIT CARD APPROVALS FACILITATED BY TPC SITES, GENERAL PURPOSE (MMI)



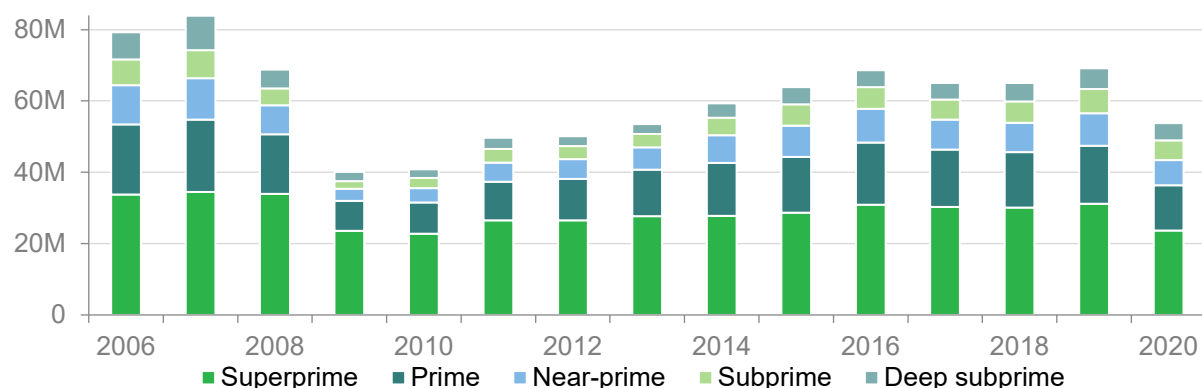
4.1.4 Account origination

A significant drop in new applications by consumers and moderate declines in the percentage of approvals by issuers led to the origination of 21.5 percent fewer new credit cards in 2020 than the year prior. In 2020, consumers opened 84.8 million new credit card accounts: 53.7 million general purpose and 31.1 million private label.¹³¹

General purpose origination account volume overall reached its lowest point since 2013, as account origination for all credit tiers dropped in 2020. As shown in Figure 12, originations for consumers with superprime scores decreased 25 percent and fell to their Great Recession-era low. Yet, application volumes for consumers with subprime and deep subprime scores remained above 2017 levels. Roughly 24 million cards were issued to consumers with superprime credit scores, 13 million to prime, seven million to near-prime, five million to subprime, and five million to consumers with deep subprime scores.

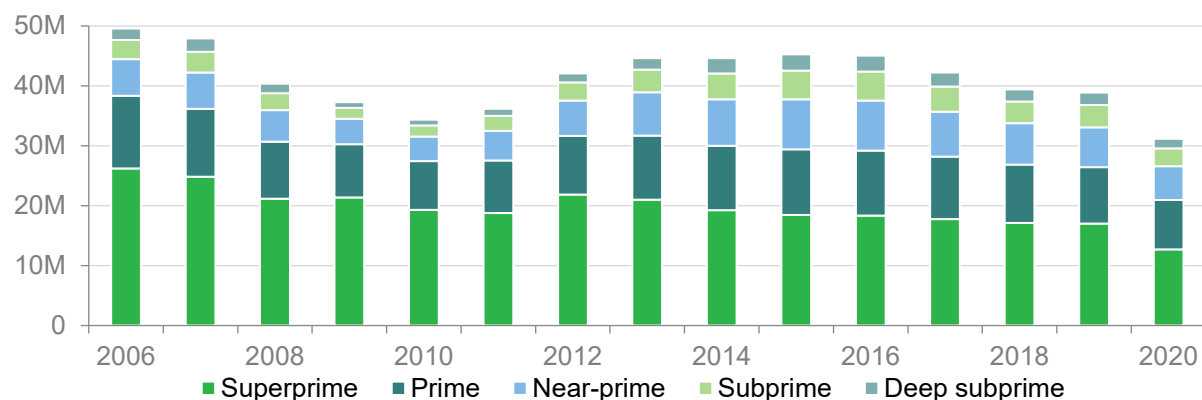
¹³¹ The data source used in this subsection is the CCP, which offers a broad view of the market but does not allow the Bureau to identify all “retail” cards. As a result, this subsection uses “private label” as it does in other sections that reference the CCP. See Section 1.3 for more on the data sources used in this report.

Figure 12: ANNUAL NEW ACCOUNT VOLUME, GENERAL PURPOSE (CCP)



Private label origination trends differ as origination volume continued to decrease from 2016 highs in every tier. Figure 13 shows that the overall decrease in 2020 was driven by a drop in superprime volume to twenty-first century lows. Originations to consumers with prime scores fell to lows not seen since the Great Recession while those with near-prime or lower scores remained closer to Great Recession highs.

Figure 13: ANNUAL NEW ACCOUNT VOLUME, PRIVATE LABEL (CCP)



The share of consumers opening cards declined in 2020, and for consumers with prime and superprime scores, that share is now below Great Recession lows. In 2020, 20 percent of consumers in the CCP opened a credit card, compared to roughly 25 percent in the three preceding years. For the superprime tier, its 20 percent share is the lowest it has been since at least 2006. The share was highest in 2020 for consumers with prime scores at 25 percent, but even that remains the tier's lowest share in recent history. In contrast, a greater share of consumers with near-prime and subprime scores opened cards than did consumers with

superprime scores in 2020. Despite the credit tightening indicated in surveys, consumers with below-prime scores were more likely to open a new card in 2020 than they did prior to the CARD Act in 2009.

4.1.5 New account credit line

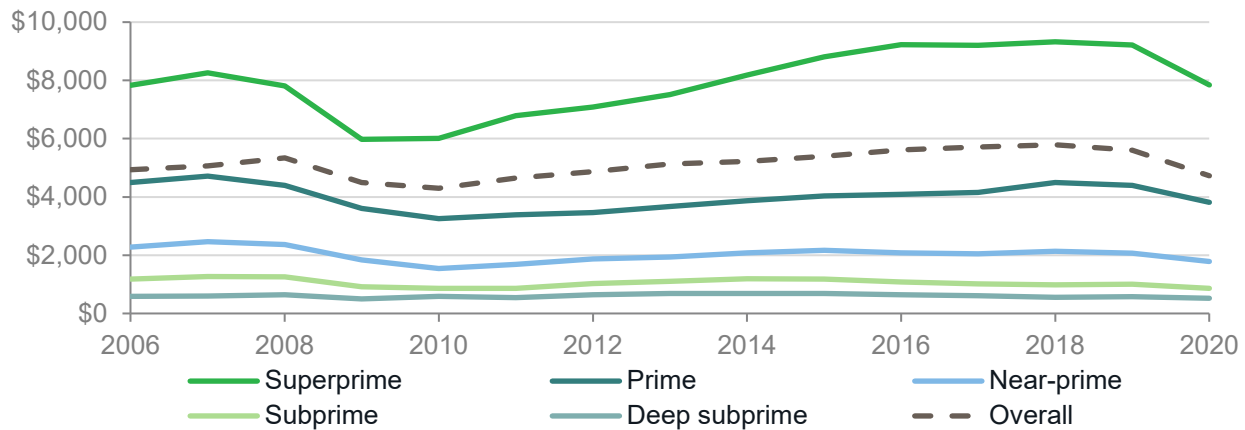
In 2019, the total credit line on new accounts was almost \$500 billion, slightly surpassing 2016 levels but still far below its pre-Great Recession highs; this value dropped over 30 percent in 2020 to \$331 billion. The decline in overall new line is a result of a complex interaction between consumer demand for credit during the pandemic and issuer willingness to supply it.

Superprime credit lines saw the largest decrease in total new line of \$118 billion, a 33 percent change. This accounted for over three-fourths of the total reduction in new account credit line. This appears to be driven by a decrease in credit demand by consumers with superprime scores as applications fell but approval rates remained fairly strong. In comparison, consumers with deep subprime scores saw the second highest percent change as total new account credit line decrease 33 percent or by slightly over one billion dollars, from 2019. However, this change at the extensive margin may not fully explain the pandemic-related decline in credit line volume, as some issuers limited risk by offering smaller credit lines to new applicants in 2020.

In 2020, general purpose cards accounted for over three-fourths of new line volume but represented 86 percent of the year-over-year decline in new line. After reaching a new post-Great Recession high in 2019, total new general purpose line dropped by over 30 percent in 2020. Previously, line growth was driven by superprime accounts; subsequently, one can attribute most of the line reduction to this tier.

The *average* new line for general purpose cards fell by 18 percent in 2020. Figure 14 shows that the average new line for all consumers increased every year from 2010 to 2018 and remained steady in 2019. The average initial line for consumers with superprime scores still exceeded Great Recession levels despite falling from \$9,208 in 2019 to \$7,842 in 2020. For consumers with deep subprime scores, pandemic-related tightening of credit lines was a continuation of a five-year decline for general purpose accounts.

Figure 14: AVERAGE CREDIT LINE ON NEW ACCOUNTS, GENERAL PURPOSE (CCP)

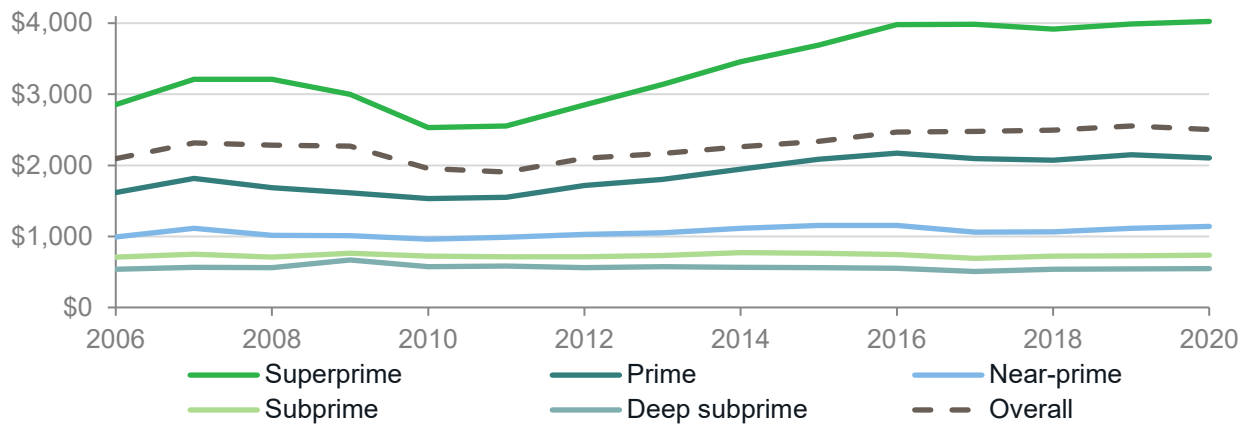


While the interaction between consumer demand and issuer supply was ambiguous for general purpose cards, the 22 percent drop in new private label credit lines can be explained primarily by fewer superprime applications as approval rates and average credit line did not decrease to the same degree. Total new private label credit lines decreased to \$78 billion in 2020 from \$100 billion the year prior. Over \$15 billion of this decrease was a reduction in credit lines for new superprime accounts. Superprime lines also saw the greatest percent change in 2020 with a 25 percent reduction, with deep subprime a close second with a 24 percent decline. New near-prime and subprime lines declined from 2019 levels of \$7.4 and \$2.7 billion to \$6.4 and \$2.2 billion respectively. However, this decrease accounts for a small percentage of the overall decline in new private label credit lines.

Average new private label lines reached their highest nominal value since 2005 of \$2,553 in 2019. In 2020, they remained above 2018 levels despite a two percent reduction overall. As shown in Figure 15, average line by credit tier remained stable in 2020. This contrasts with a decrease in average credit lines for all credit score tiers for general purpose cards. Since new average line for private label cards did not dramatically change in 2020 while the total new line fell by almost a quarter, the change in private label credit line is likely due to fewer new accounts in 2020 as stores closed and discretionary spending dropped during the pandemic.¹³²

¹³² See Selyukh, *supra* note 123. For more on credit card purchase volumes, see Section 2.3.

Figure 15: AVERAGE CREDIT LINE ON NEW ACCOUNTS, PRIVATE LABEL (CCP)



4.2 Existing accounts

Total credit line across all consumer credit cards exceeded \$4.5 trillion in 2019. In 2020, it decreased slightly, as driven by a decline in private label lines, but still far exceeded 2018 levels. The total credit line for general purpose was \$3.9 trillion in both 2019 and 2020. Most of this is accounted for by total *unused* line on accounts held by consumers with superprime scores equaling \$3.2 trillion in 2020.¹³³ In comparison, unused line on accounts held by consumers with subprime and deep subprime scores equaled \$24.4 billion, and total general purpose credit line for each other credit tier except superprime decreased in 2020. Total credit line available for private label cards fell in both 2019 and 2020. The present subsection examines this issue in more detail by looking at a range of account-level and cardholder-level measures on existing accounts for each score tier and card type.

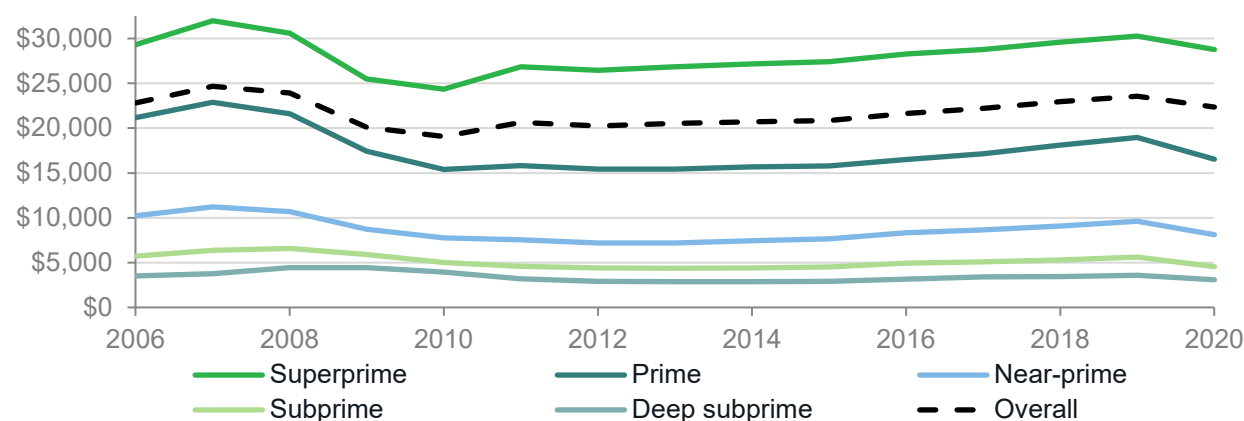
4.2.1 Average credit line

Average general purpose credit line *per account* increased slightly in 2019 before finishing lower in 2020 at about \$8,000. These changes were mirrored across all credit score tiers. The average

¹³³ Unused line on superprime accounts totaled more than \$3.2 trillion in 2020. Almost all of that was on general purpose cards.

general purpose line *per cardholder* increased in 2019 and then decreased in 2020 for all credit scores, as the average value overall returned to 2018 levels. As Figure 16 shows, consumers with mid-range and lower scores were most affected by issuers tightening of credit supply during the COVID-19 national emergency. Average line for consumers with near-prime, subprime, and deep subprime scores across all cards decreased over 10 percent. In comparison, average credit line for superprime cardholders fell by 5 percent.

Figure 16: AVERAGE CREDIT LINE PER CARDHOLDER, GENERAL PURPOSE (CCP)



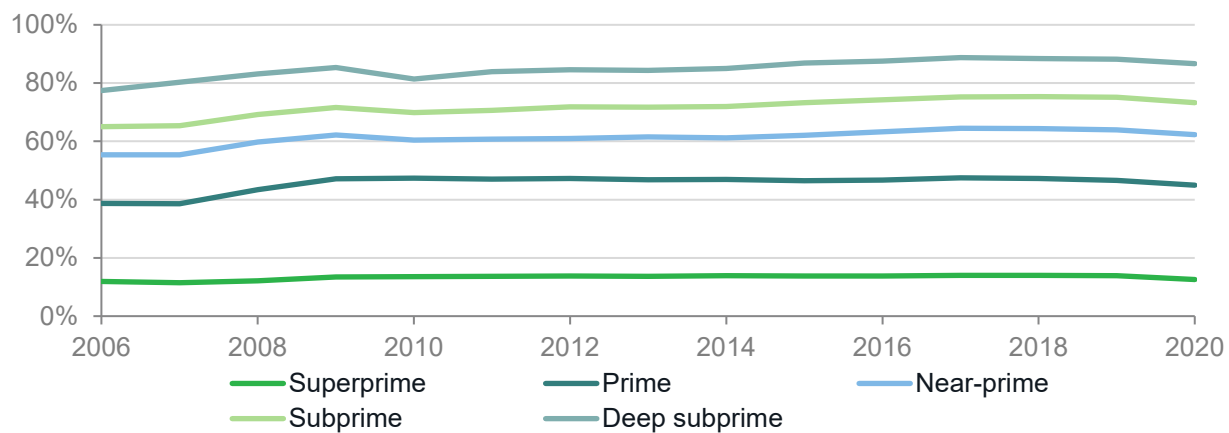
The private label picture is very different, as cardholders in all tiers reached new high average credit lines in 2019 and remain high in 2020. In 2020 average private label credit line per card was almost \$2,700, marking a new high. The average private label card has about one-third more line now than in 2012. Accounts held by consumers in lower credit tiers show slower growth over the same period, but no tier remains below its pre-recession high. At the cardholder level, after reaching new highs in 2019, in 2020 average line declined to 4 percent below where they were on average in 2018. Coupled with higher average lines at the card level, it is likely this represents an increase in account closures.¹³⁴

¹³⁴ For more information regarding account closures, see Section 4.2.3.

4.2.2 Utilization

Revolving credit for general purpose cards in 2020 amounted to less than one-fifth of total line available for the first time since before the Great Recession. Despite overall increases in the total dollar value of line available over the past decade, utilization has been remarkably stable as *unused* line rose in tandem. Therefore, the overall decrease in the utilization rate to 18.5 percent in 2020 from 21.4 percent the two prior years is a significant deviation from the mean. As shown in Figure 17, general purpose utilization decreased in every credit tier. In 2020, credit limits for general purpose cards stayed relatively constant while total debt fell; this led to a decrease in the utilization rate.¹³⁵ As utilization rate is used of credit scoring, it will be interesting to see how the distribution of credit scores shift if credit card debt continues to contract.

Figure 17: AVERAGE UTILIZATION RATE BY CREDIT SCORE TIER, GENERAL PURPOSE (CCP)



In addition to an overall decline in total utilization, the share of consumers with below-prime scores who have used 90 percent or more of their general purpose credit line reached record lows in 2020. Since 2015, slightly above three-fifths of consumers with below-prime scores met or exceeded this threshold of limited available credit as shown in Figure 18. This measure dropped to 56.8 percent in the second quarter of 2020. During this time the CARES Act Economic Impact Payments, Pandemic Unemployment Assistance Program, mortgage

¹³⁵ See sections 2.2.1, 2.4, and 4.2.3

forbearance, student loan payment suspension and other programs provided consumers with additional cash or lower payments. In addition, consumer spending dropped sharply.

Figure 18: QUARTERLY SHARE OF BELOW-PRIME CARDHOLDERS WITH AT LEAST 90 PERCENT UTILIZATION ACROSS ALL CARDS, GENERAL PURPOSE (CCP)



4.2.3 Credit line management

Credit lines on existing accounts are not static. Issuers can increase or decrease them without consumer consent. Credit line increases (CLI) are somewhat restricted by the CARD Act's ability-to-pay requirements, but issuers confront a range of more substantial regulatory restrictions on repricing existing balances.¹³⁶ Previous research published by the Bureau studied whether issuers may use line management to respond to risk revealed post-origination or changes in nationwide economic conditions.¹³⁷

CREDIT LINE INCREASE

As shown in Figures 19 and 20, annual CLI incidence in 2020 was around 3 percent for both general purpose and private label cards. Prior to the pandemic, 4 percent of accounts received a

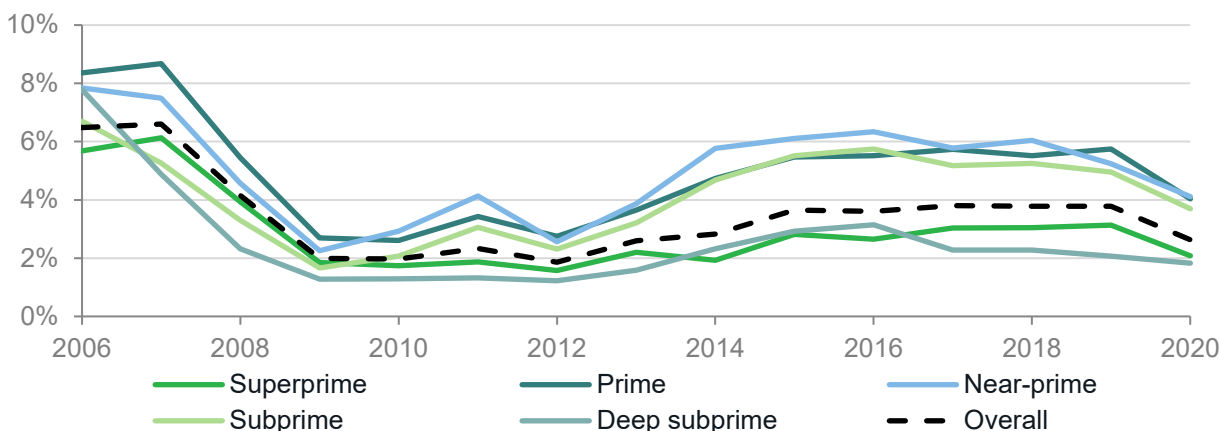
¹³⁶ The ability-to-pay rules require that issuers consider an applicant's ability to pay the minimum monthly payment on an account prior to opening a credit card account under an open-end (not home-secured) consumer credit plan or increasing a credit line on such an account. 12 CFR 1026.51(a)(1)(i). *See also* 15 U.S.C. § 1665e (2012). Repricing of existing balance is only allowed under a set of relatively narrow circumstances. *See* 12 CFR 1026.55(b).

¹³⁷ *See* 2017 Report, *supra* note 6, at 158-162.

CLI each year. While this decline may indicate some hesitancy on the part of issuers to initiate new CLIs during the pandemic, yearly incidence remained at or close to post-Great Recession norms for all credit tiers.

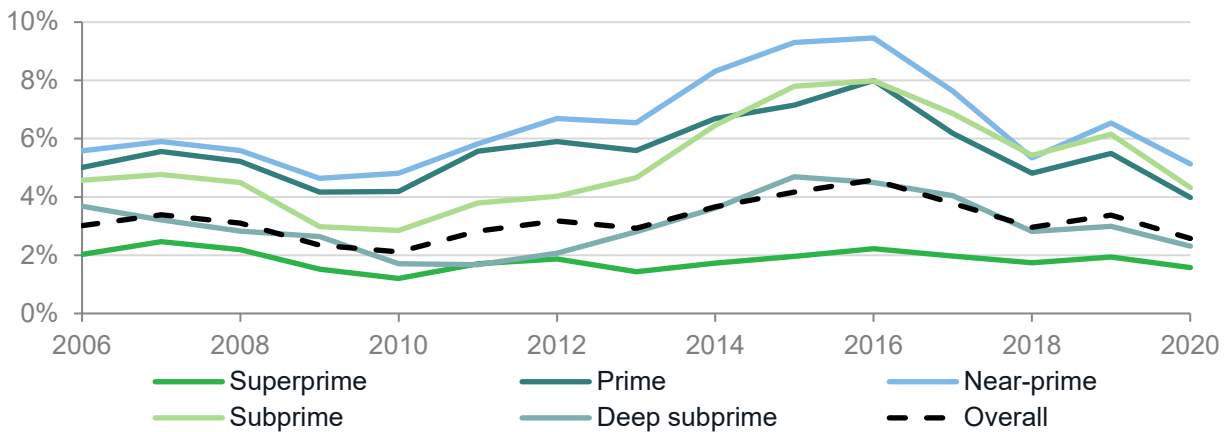
The median general purpose CLI in 2020 was \$1500 compared to \$2000 in 2019. This was the first overall decrease in median value in a decade, as issuers offered every credit tier smaller line increases on par with 2012 levels. Yet this trend masks tier differentials as the median increase for consumers with superprime scores is still ten times that of consumers with deep subprime scores. However, consumers with prime scores saw the greatest change as their median CLI dropped from \$1550 to \$1000 in 2020.

Figure 19: ANNUAL CREDIT LINE INCREASE INCIDENCE, GENERAL PURPOSE (CCP)



For private label cards, the median line increase was \$700 in both 2019 and 2020. Consumers with superprime, near-prime, and deep subprime scores saw no change in their median line increases over the past four years while each lower credit score tier was offered a lower median line in 2020 than a year prior.

Figure 20: ANNUAL CREDIT LINE INCREASE INCIDENCE, PRIVATE LABEL (CCP)

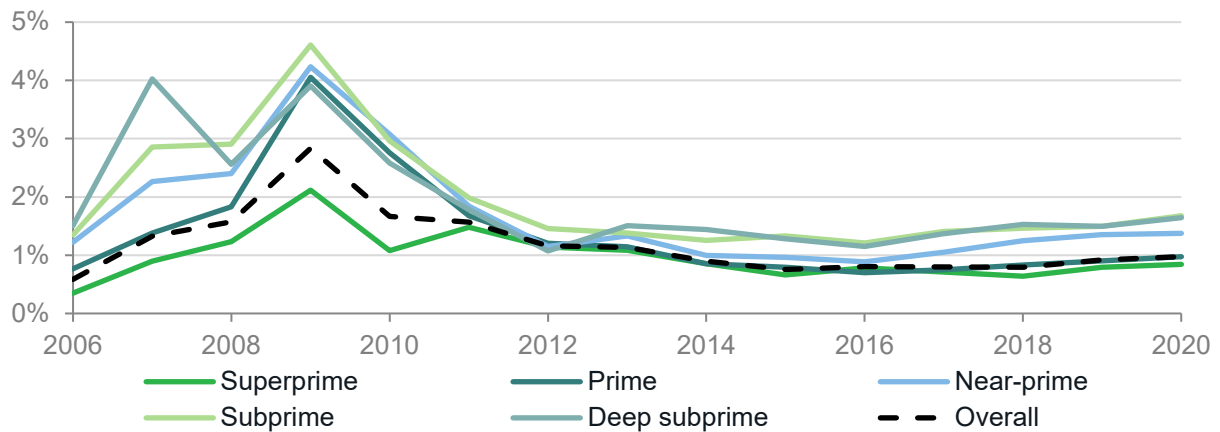


CREDIT LINE DECREASE

General purpose card issuers did not meaningfully change their line management of existing accounts in response to economic uncertainty during the pandemic, despite media reports to the contrary. In the second quarter of 2020, 0.9 percent of general purpose accounts saw a decrease in available credit line from issuers. This did not change year over year and remained far below its highest quarterly value of 3.7 percent of general purpose accounts experiencing CLDs at the height of the Great Recession. As has been the norm, a higher percentage of consumers with below-prime scores experienced CLDs while cardholders with superprime and prime scores were less likely to experience a change in their credit lines. All tiers followed a similar trend of a moderate increase in CLDs as shown in Figure 20. Yet, both overall and for all credit tiers, a higher percentage of consumers still saw their general purpose credit lines increased than decreased in 2020. One explanation may be that card issuers resisted reducing credit lines to avoid angering their customers.¹³⁸

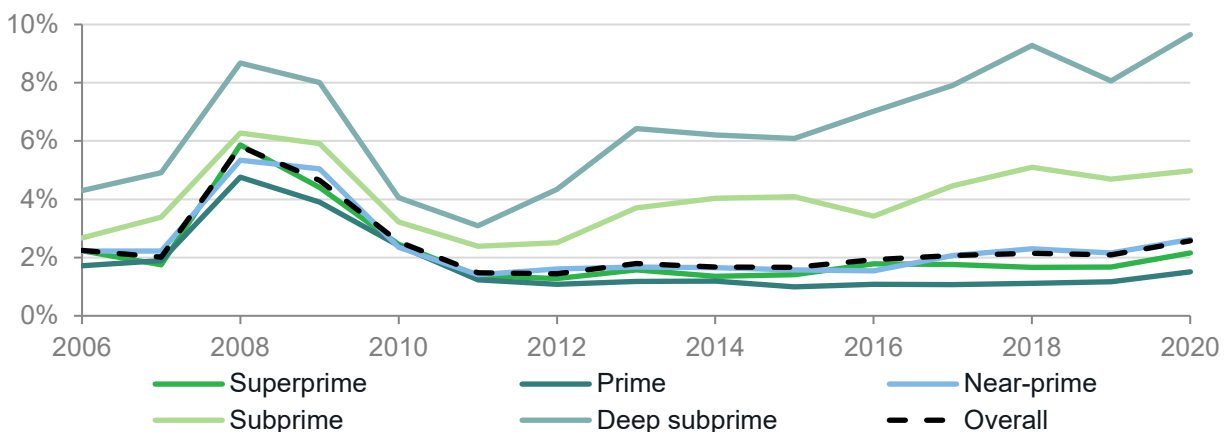
¹³⁸ See, e.g., Kevin Wack, *Credit card lenders clamp down to mitigate coronavirus risk*, American Banker (May 29, 2020), <https://www.americanbanker.com/news/credit-card-lenders-clamp-down-to-mitigate-coronavirus-risk>.

Figure 21: ANNUAL CREDIT LINE DECREASE INCIDENCE, GENERAL PURPOSE (CCP)



Evidence suggests that private label card issuers may be reacting to heightened risk of below-prime borrowers in their portfolios by using CLDs to limit their exposure. For private label cards, CLDs increased from a quarterly value of 2.1 percent in 2019 to 4.3 percent in the third quarter of 2020 before returning to 2.2 percent in the fourth quarter but were still far below the 2008 peak of 13.4 percent. As shown in Figure 22, consumers with subprime and deep subprime scores have been much more likely to see private label CLDs since the Great Recession than those in higher credit tiers. However, this differential expanded in 2020 as CLD incidence for consumers with deep subprime scores increased by two percentage points to 10 percent annually and exceeded its 2008 peak while that of superprime only saw half a percentage point increase. Continuing previously reported trends, the annual rate of CLDs was only higher than that of CLIs for private label accounts with subprime or lower credit scores.

Figure 22: ANNUAL CREDIT LINE DECREASE INCIDENCE, PRIVATE LABEL (CCP)



While the incidence of CLDs marginally increased during the pandemic, the magnitude of these line decreases was on par with or lower than in previous years. Like the median CLI value in 2020, the dollar value of CLDs per account decreased for both card types. The median CLD for general purpose cards is now slightly above \$2500 as driven by an increase in CLDs on prime consumers. For private label cards, this value decreased 13 percent in 2020 and is now about \$1000.

There is little evidence to support an unprecedented, industry-wide slashing of existing credit limits as widely reported during the COVID-19 national emergency.¹³⁹ Research on the early effects of the pandemic on consumer credit found borrowers with superprime and prime scores experienced relatively more reductions on existing account limits.¹⁴⁰ This is likely driven primarily by reductions in line for consumers with significant unused credit, such as cardholders with superprime and prime scores. However, for consumers who did experience a CLD during the pandemic, this reduction in credit availability was surprising and often acutely felt, as evidenced by a 65 percent increase in complaints related to CLDs in 2020.¹⁴¹ CLDs may also have long-term effects on credit scores. FICO estimated that a severe CLD could result in a 9 point reduction of a cardholder's credit score.¹⁴² The Bureau intends to further study the effects of CLD and its impact on credit utilization and credit scores, in particular for those consumers with non-prime credit scores.

ACCOUNT CLOSURE

About 2 percent of both general purpose and private label accounts are closed each year. This has been true for the past decade, and it remained true in 2020. Accounts can be closed by the

¹³⁹ See, e.g., Kristopher Brooks, *70 million people just had their credit card limits cut or accounts closed*, CBS News (July 22, 2020), <https://www.cbsnews.com/news/credit-card-limits-reduced-closed-70-million-cardholders/>.

¹⁴⁰ See Sandler & Ricks, *supra* note 24, at 22.

¹⁴¹ See Cons. Fin. Prot. Bur., *Consumer Response Annual Report*, at 118 (Mar. 2021), <https://www.consumerfinance.gov/data-research/research-reports/2020-consumer-response-annual-report/>.

¹⁴² 9 points was the average decline in FICO score for an up to 50 percent decrease in available credit limit based on simulations using data from prior downturns. See FICO, *North America What FICO Score Dynamics from Prior Downturns and Natural Disasters Can Tell Us About the Road Ahead* (Oct. 2020), <https://www.fico.com/en/latest-thinking/demand-webinar/north-america-what-fico-score-dynamics-prior-downturns-and-natural>.

consumer, closed by the creditor, or closed for inactivity. For all card types, the annual account closure incidence for consumers with deep subprime credit scores are two to three times more likely than those in higher credit tiers as shown in Figures 23 and 24. Yet other research suggests that the slight increase in account closures from March to June 2020 primarily affected superprime and prime borrowers.¹⁴³ In those months, there were higher account closures by creditors and closures for inactivity.

Figure 23: ANNUAL ACCOUNT CLOSURE INCIDENCE, GENERAL PURPOSE (CCP)

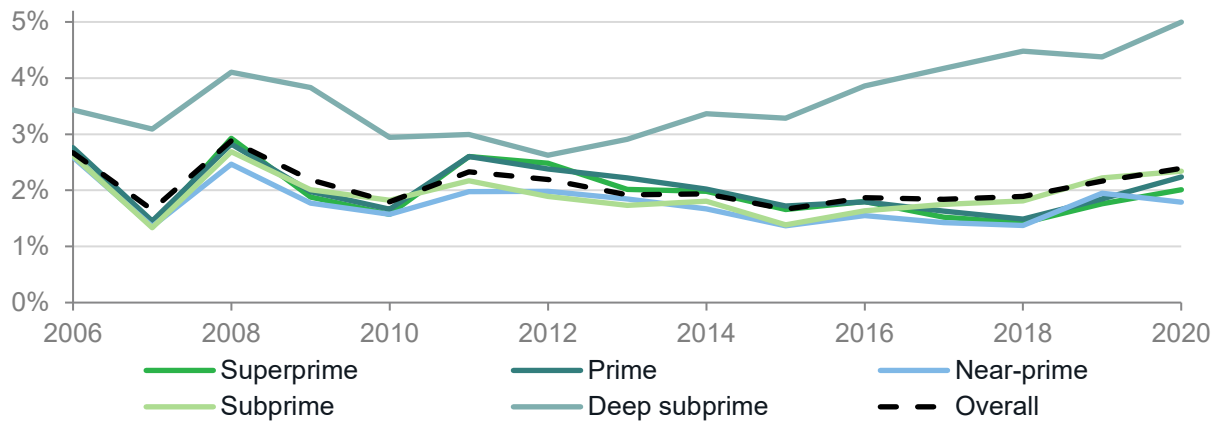
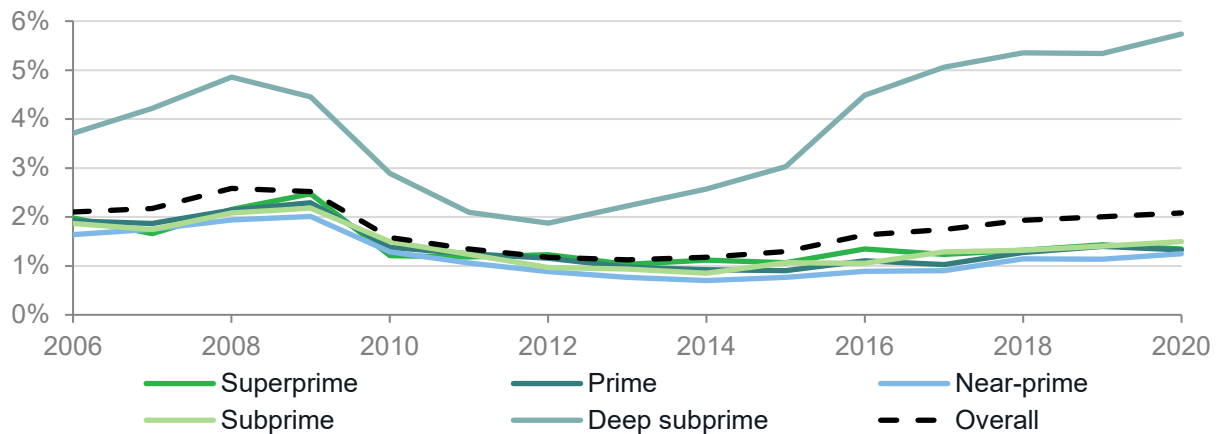


Figure 24: ANNUAL ACCOUNT CLOSURE INCIDENCE, PRIVATE LABEL (CCP)



¹⁴³ See Sandler & Ricks, *supra* note 24, at 22.

5. Practices of credit card issuers

In the CARD Act, Congress directs the Bureau to review “the terms of credit card agreements and the practices of credit card issuers” and “the effectiveness of disclosure of terms, fees, and other expenses of credit card plans.”¹⁴⁴ Therefore, this section describes trends and developments in issuer practices related to four common credit card features: credit card rewards, deferred interest promotions, balance transfers, and cash advances. For each feature, it discusses its prevalence in the market, costs associated with utilizing the feature, and any changes issuers or third parties have made in supporting consumers who choose to use them. The section then describes changes in issuer practices made in response to COVID-19, such as the promulgation of consumer relief programs, and adjustments made to operations considering safety concerns. Finally, this section reviews changes to credit card agreements observed over time.

In particular, for the four account features discussed below, the impact of the pandemic on credit card issuers is large and clear. Consequently, the direct issuer response to COVID-19 had a similarly large impact on consumers, primarily through widely available payment deferral.

¹⁴⁴ 15 U.S.C. § 1616(a)(1)-(2).

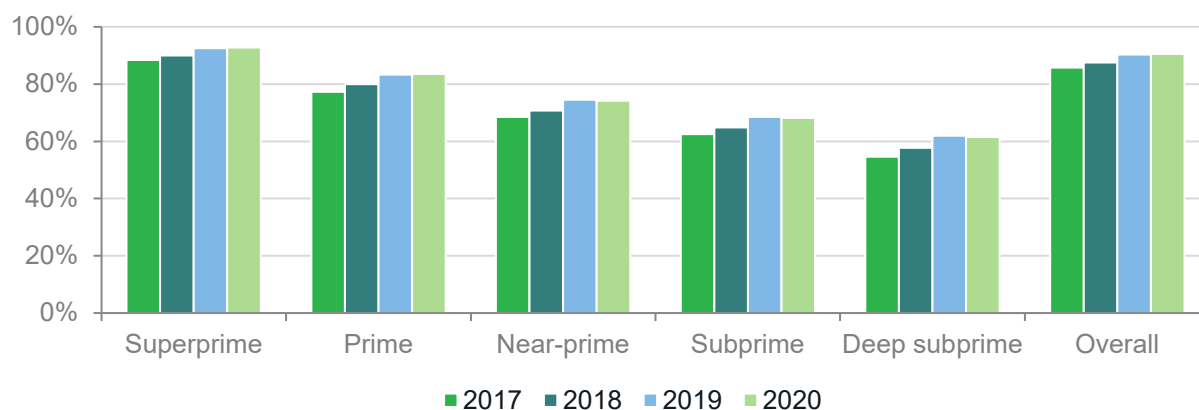
5.1 Rewards

Credit cards offering rewards remain popular with cardholders, despite pandemic-related declines in travel that temporarily reduced the utility of some forms of rewards.¹⁴⁵ This section reviews recent rewards trends.

5.1.1 Prevalence

The share of credit card spending accounted for by rewards cards has continued to increase since 2018. That is true both overall and for each credit score tier, with growth particularly notable for consumers with lower credit scores. By the end of 2020, even consumers with deep subprime scores put more than 60 percent of their credit card purchase volume on rewards cards, and consumers with near-prime scores put nearly three-fourths of their spending on rewards cards.¹⁴⁶ Trends in reward-card purchase volume as a share of total spending are shown in Figure 1.

Figure 1: SHARE OF PURCHASE VOLUME ON A REWARDS CARD, GENERAL PURPOSE (Y-14+)



¹⁴⁵ For a detailed discussion of what aspects are generally shared by those credit card account features commonly denoted as “rewards,” see 2015 Report, *supra* note 6, at 209-212.

¹⁴⁶ J.D. Power reported in 2020 that consumers who self-report as “fully understanding how to earn and redeem points” have an average spend that is \$307 more than the average spend of consumers who self-report as not fully understanding their rewards programs. See J.D. Power Satisfaction Study, *supra* note 2.

Rewards cards remain popular, driven by the higher end of the credit spectrum. Shifting preferences towards rewards cards reflect survey findings that show rewards as the predominant factor in choosing a card.¹⁴⁷ While cardholders with subprime and deep subprime scores are less likely than consumers with superprime scores to originate rewards cards, these cardholders still put more than one-half of their credit card spending on rewards cards, as shown in Figure 2.¹⁴⁸

Cardholders continue to embrace rewards cards, and increasingly prefer cash rewards to miles.¹⁴⁹ In 2020, cash rewards card spending increased the most of any group, accounting for one third of general purpose card spending. Spending on miles rewards cards fell to 18 percent in 2020, which coincided with a sharp decline in travel spending as a result of pandemic-related travel restrictions.¹⁵⁰ Cards that earn other types of rewards, such as points, special offers, or discounts, remain the most common by purchase volume at 39 percent.

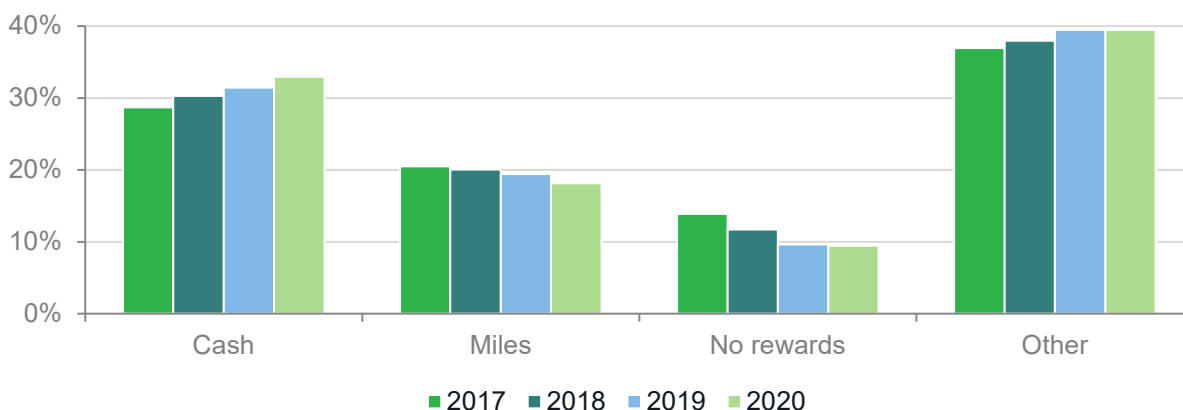
¹⁴⁷ Similarly, J.D. Power’s 2018 survey found that 47 percent of credit card customers who switched to a new card within the past 12 months did so for a better rewards program. See J.D. Power, *Credit Card Rewards Battle Continues as Customers Seek Better Programs* (Aug. 16, 2018), <https://www.jdpower.com/business/press-releases/2018-us-credit-card-satisfaction-study>. In its 2013 Report, the Bureau references a 2011 Mercator Customer Monitor Survey showing rewards were the number one reason to apply for a selected card at that time as well. 2013 Report, *supra* note 6, at 82 n.94.

¹⁴⁸ For information on the share of new accounts with rewards by credit tier, see 2015 report, *supra* note 6, at 100.

¹⁴⁹ Issuers’ new card offerings post-pandemic recession reflect this shift. See, e.g., Jennifer Surane, *Credit Cards Revive Rewards battle with New Cash-Back Offerings*, Bloomberg (July 19, 2021), <https://www.bloomberg.com/news/articles/2021-07-19/rewards-war-returns-with-a-spate-of-new-cash-back-credit-cards?srref=25rnPxpS>.

¹⁵⁰ Visa reported travel spending fell about 80 percent in March of 2020, with restaurant and entertainment segments down at least 50 percent. Emily Bary, *Visa sees ‘significant deterioration’ in spending but some areas are showing improvement*, MarketWatch (Apr. 30, 2020), <https://www.marketwatch.com/story/visa-earnings-top-expectations-but-coronavirus-prompts-significant-deterioration-in-spending-2020-04-30>.

Figure 2: SHARE OF PURCHASE VOLUME BY REWARD TYPE, GENERAL PURPOSE (Y-14+)



5.1.2 Developments

Card issuers altered rewards programs in response to changes in consumer spending and reward redemption behavior during the pandemic, especially those rewards cards that focused on travel, entertainment, and restaurants, and that carry an annual fee. During the pandemic, several issuers made changes to bonus earning by increasing rewards for spending in areas such as grocery and home delivery and by offering statement credits or redemption options for items people were more likely to use while staying home such as video streaming services and cellphone bills.¹⁵¹ Some issuers also extended the time allowed to meet spend requirements to earn sign-up bonuses.¹⁵² These programmatic changes were likely aimed at keeping customers from moving spending away from their card, downgrading to lower-fee products, or canceling their card altogether. However, at the time of this writing, most restrictions have been lifted, and

¹⁵¹ See AnnaMaria Andriotis, *Travel Bans Take Shine Off Banks' Premium Rewards Cards*, Wall St. J. (June 28, 2020), <https://www.wsj.com/articles/travel-bans-take-shine-off-banks-premium-rewards-cards-11593336600>. See also Katie Deighton, *Credit-Card Providers Scramble to Update Customer Benefits as International Travel Ban Drags On*, Wall St. J. (Sept. 2, 2020), <https://www.wsj.com/articles/credit-card-providers-scramble-to-update-customer-benefits-as-international-travel-ban-drags-on-11599040800>.

¹⁵² See Alexandria White, *Amex is offering new cardholders 3 more months to earn welcome bonus*, CNBC (Updated May 6, 2021), <https://www.cnbc.com/select/amex-extends-welcome-bonus-for-new-cardholders/>.

issuers are shifting the focus of rewards programs back towards travel and entertainment, suggesting issuers anticipate a return to previous spending behavior.¹⁵³

Rewards remain important to cardholders, but consumer reward preferences have changed significantly since the Bureau's previous report; it remains unclear how much of that change is temporary due to pandemic restrictions.¹⁵⁴ Among cardholders who opened a new card, the three most-cited reasons for doing so were attractive rewards, benefits, and sign-up offers.¹⁵⁵ Cardholders also tend to use rewards cards more – the share of cardholders reporting a non-rewards card as their most frequently used card declined from 23 percent in 2019 to 17 percent in 2020.¹⁵⁶ Consumers continue to favor cash rewards in 2020 – 55 percent of consumers preferred to redeem rewards for charges or a check, compared to 44 percent in 2019 and 26 percent in 2016.¹⁵⁷ However, at least one issuer has also observed increases in reward points levels, indicating many consumers may be accumulating points to use once they resume travel.¹⁵⁸

New forms of rewards announced since the Bureau's prior report, such as cryptocurrency and student loan repayment, may prove attractive to some consumers. In late 2020 and early 2021, Gemini, BlockFi, and SoFi announced credit cards that offer cash back in the form of

¹⁵³ See Kevin Wack, *Card issuers reliant on miles, hotel rewards await travel rebound*, American Banker (Mar. 22, 2021), <https://www.americanbanker.com/payments/news/card-issuers-reliant-on-miles-hotel-rewards-await-travel-rebound>. “As vaccinations continue and more people return to traveling, card issuers are anticipating that rich sign on bonuses and flexibility with rewards will spark new interest with consumers.” Competiscan, *Travel Consumer Cards* (Q1 2021), at 3.

¹⁵⁴ See AnnaMaria Andriotis & Alison Sider, *Airline Cards Lose Luster as Coronavirus Persists*, Wall St. J. (Dec. 3, 2020), <https://www.wsj.com/articles/airline-cards-lose-luster-as-coronavirus-persists-11606991400>.

¹⁵⁵ Auriemma Research, *Impact of Credit Line Changes and Loan Forbearance, Attitudes toward Low or No-APR Cards, and 'Refer a Friend' Programs*, Cardbeat US (Apr. 2021), at 53.

¹⁵⁶ Auriemma Research, *2020 Trend Database*, Cardbeat US (Mar. 2021), at 6.

¹⁵⁷ Auriemma Research, *2020 Trend Database*, *The Payments Report* (Mar. 2021), at 16.

¹⁵⁸ See Wack, *supra* note 153.

cryptocurrency stored in an affiliated investment account.¹⁵⁹ One survey found that nearly four-in-ten cardholders report they would be likely to redeem points for cryptocurrency.¹⁶⁰ These preferences are inversely correlated with age, as younger consumers expressed greater likelihood to redeem points for cryptocurrency.¹⁶¹ In addition to its crypto option, SoFi also gives users the option to put cash toward student loan balances.¹⁶² As a reward for card repayment, SoFi states they will lower the APR of the card by one percentage point after 12 timely payments.¹⁶³ Laurel Road also introduced a card for students that provides greater cashback redemption if used to pay down student loans.¹⁶⁴ Similar to affinity cards that generate rewards with spending but pass the funds to social causes or affiliated organizations, Aspiration introduced a card that rewards users by planting trees to offset the user's carbon footprint.¹⁶⁵

5.2 Deferred interest

Deferred interest ("DI") promotions are a large feature of the retail consumer credit card market. Almost always associated with private label and retail co-brand cards, deferred interest

¹⁵⁹ BlockFi Blog, *Join the Waitlist for the World's First-Ever Bitcoin Rewards Credit Card* (Dec. 1, 2020), <https://blockfi.com/bitcoin-card-crypto-rewards>; Gemini Blog, *Gemini to Offer Credit Card with Crypto Rewards* (Jan. 14, 2021), <https://www.gemini.com/blog/gemini-to-offer-credit-card-with-crypto-rewards>; SoFi, *SoFi Credit Card*, <https://www.sofi.com/credit-card/> (last accessed May 26, 2021). In 2014, the Bureau issued a consumer advisory warning to consumers about the risks of virtual currencies such as Bitcoin. *See* Cons. Fin. Prot. Bur., *CFPB Warns Consumers About Bitcoin* (Aug. 11, 2014), <https://www.consumerfinance.gov/about-us/newsroom/cfpb-warns-consumers-about-bitcoin/>.

¹⁶⁰ This statistic is from interviews with 803 credit card users conducted in 2020. *See* Auriemma Research, *Impact of Credit Line Changes and Loan Forbearance, Attitudes toward Low or No-APR Cards, and 'Refer a Friend' Programs*, Cardbeat US (Apr. 2021), at 52.

¹⁶¹ *Id.*

¹⁶² *See* SoFi *supra* note 159.

¹⁶³ Competiscan, *Consumer Credit Cards Overview* (Q4 2020), at 7.

¹⁶⁴ *See* Laurel Road, *Laurel Road Student Loan Cashback Card*, <https://www.laurelroad.com/healthcare-banking/cash-back-credit-card/> (last accessed May 28, 2021).

¹⁶⁵ *See* Aspiration, *Zero*, <https://www.aspiration.com/zero> (last accessed May 27, 2021).

promotions are generally presented to consumers as an option to finance larger purchases. Consumers are given a fixed period of at least six months during which all interest charges are “deferred”—the issuer calculates how much interest the consumer would owe at the account’s retail APR, but does not immediately charge it to the consumer.¹⁶⁶ If the consumer pays down the full promotional balance during the promotional period, the deferred interest is never charged, and the consumer has gained the benefit of low-cost financing—almost always zero percent.¹⁶⁷ Conversely, a consumer who does not pay in full during the promotional period will generally have all the deferred interest capitalized into their balance at the promotion’s conclusion. As noted above, in the case of private label cards, the average retail APR is roughly 24 percent.¹⁶⁸

This section builds on prior work to identify new and emerging trends in the prevalence and cost of deferred interest programs. The Bureau’s 2015 Report analyzed the legal background and current status of deferred interest promotions. It also reported findings from promotional-level data covering the full portfolios of several large DI issuers over a period of several years. The Bureau’s 2017 Report looked at promotional spending, payoff rates, and amount of deferred interest assessed by merchant category, promotion duration, and credit score. For 2021, the Bureau again solicited information to analyze spending, payoff rates, and deferred interest assessed.

The Bureau also solicited information regarding issuers’ response to COVID-19 with respect to deferred interest programs and found that issuers generally made few-to-no changes to their

¹⁶⁶ Deferred interest promotions of less than six months are effectively prohibited by the CARD Act and Regulation Z. 15 U.S.C. § 1666i-2(b); 12 CFR § 1026.55(b)(1); Comment 55(b)(1)-3.

¹⁶⁷ Generally, minimum payments alone are insufficient to repay the balance within the promotional period. In some cases, promotional balances are subject to an interest rate greater than zero percent during the promotional period, but by far the most common promotional interest rate is zero percent. In some cases issuers may also assess an up-front fee for enrollment in deferred interest programs.

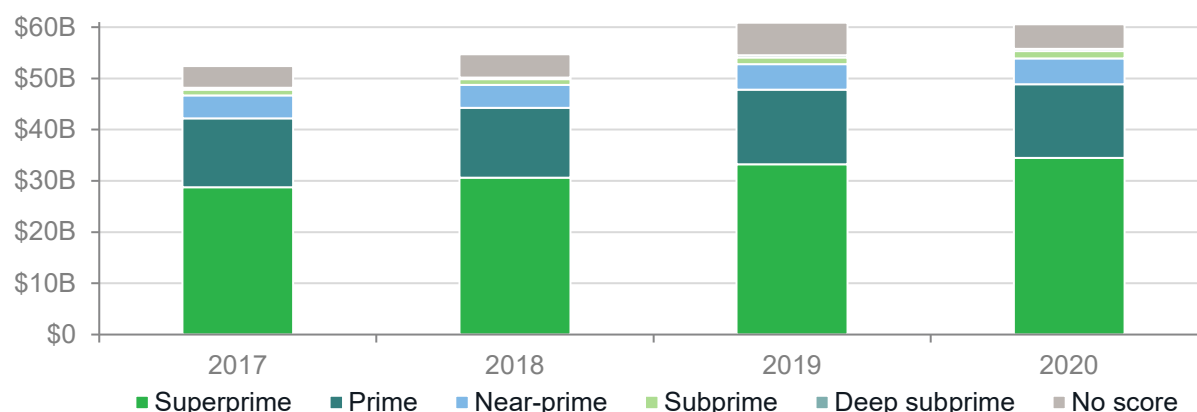
¹⁶⁸ One industry trade group pointed to deferred interest promotions as providing value to consumers. See ABA Comment Letter, at 16. Consumer advocates, by contrast, have called for deferred interest to be banned or, barring that, substantially restructured. See NCLC Comment Letter, at 12-14. One study by Wallethub found that 74 percent of people think “deferred interest” is unfair, 61 percent think it should be illegal, and 52 percent of people don’t know how it works. Alina Comoreanu, *Deferred Interest Study: Which Retailers Use It?*, Wallethub (Nov. 17, 2020), <https://wallethub.com/edu/cc/deferred-interest-study/25707>.

deferred interest-specific marketing, underwriting, and product structure. This does not account for issuers who made broader changes to how they marketed, underwrote, or otherwise offered retail credit cards; such changes may have had indirect effects on the marketing and availability of deferred interest products. Most issuers reported providing DI-specific relief to consumers impacted by COVID-19, generally on a by-request basis. Such relief generally took the form of extensions of promotional periods, in some cases alongside broader forbearance measures and in some cases as independently offered relief. Extensions were generally two-to-three months in length.

5.2.1 Prevalence

Deferred interest promotions remain generally popular with consumers, with purchase volumes relatively high despite pandemic-era disruptions in retail sales. Total purchase volume, as shown in Figure 3, was over \$60 billion in 2020, flat since 2019 but an increase of 16 percent from 2017. Growth since 2017 was driven by consumers with superprime scores, which saw aggregate purchase amounts increase 20 percent from 2017 to 2020. Consistent with the findings of previous Bureau reports, consumers with higher credit scores comprise the bulk of deferred interest purchase activity. In 2020, the number of deferred interest purchases increased more than 50 percent overall from 2018 levels. In 2020, the number of transactions for promotions with a duration of less than a year was twice that of two years prior while the number of purchases with longer term length promotions remained close to previous levels.

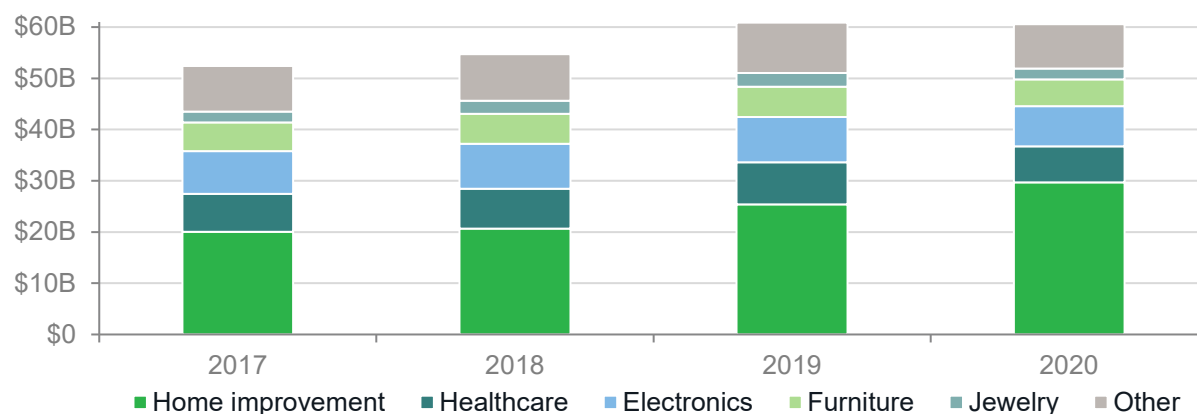
Figure 3: TOTAL PURCHASE VOLUME ON DEFERRED INTEREST PROMOTIONS (DI)



Deferred interest promotions are generally used to finance larger purchases. As a result, they tend to be used most at merchants that specialize in offering larger-ticket goods or services. In

2017 the Bureau reported that four-fifths of all deferred interest dollars were spent at merchants that specialize in five specific product or service categories, with the remainder spent either at merchants that specialize in other types of goods or services, or at merchants without a clear specialization.¹⁶⁹ In 2020 that figure has risen to six-sevenths. The largest driver of deferred interest consumer use is spending on home improvement; that sector, in contrast to travel and entertainment spending, saw an increase in spending driven by COVID-19,¹⁷⁰ which may help explain the relative persistence of deferred interest promotion volume in 2020 even as overall credit card purchase volume and indebtedness declined.

Figure 4: TOTAL PURCHASE VOLUME ON DEFERRED INTEREST PROMOTIONS BY MERCHANT CATEGORY (DI)



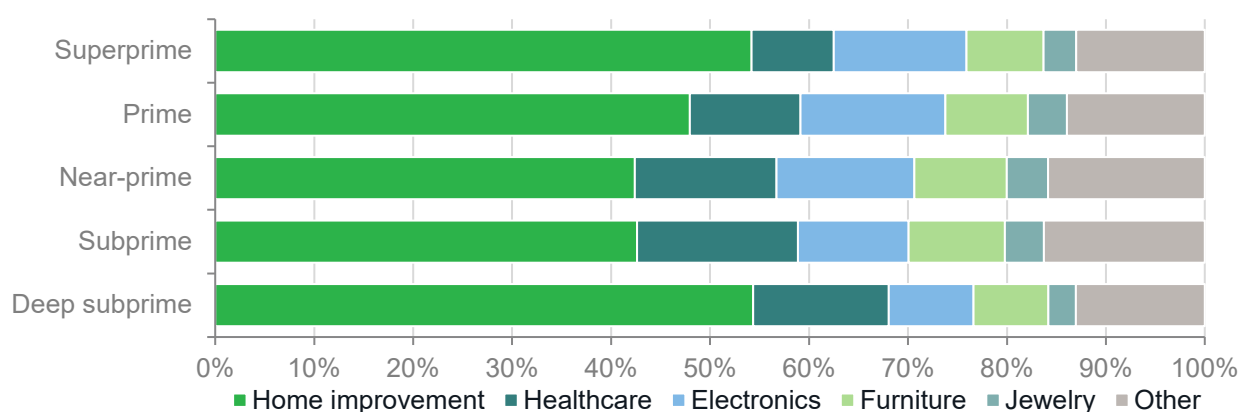
The mix of spending across merchants varies substantially by credit score tier as well as over time. Figure 4 displays the deferred interest promotional spending consumers made at each type of merchant. Figure 5 breaks down that spending by credit score tier in 2020. The Bureau’s 2017 report noted that consumers with superprime scores tend to concentrate their deferred interest

¹⁶⁹See 2017 Report, *supra* note 6, at 103. “Other” includes department stores and shopping channels, where many of the actual products offered and sold may fall under one or more of the five enumerated categories. The actual share of spending on those types of goods and services, therefore, may be even higher than the merchant share may imply.

¹⁷⁰ See, e.g., Kermit Baker, *Despite Devastating Effects on the Broader Economy, Pandemic has been a Boon for US Home Improvement*, Joint Center for Housing Studies of Harvard University (Mar. 25, 2021), <https://www.jchs.harvard.edu/blog/despite-devastating-effects-broader-economy-pandemic-has-been-boon-us-home-improvement>.

spending at home improvement merchants.¹⁷¹ That remains the case, but consumers with subprime and deep subprime scores now also concentrate more of their deferred interest purchases on home improvement, rather than healthcare which was a significant category in 2017. In fact, the share of deferred interest promotional spending on home improvement had risen from 38 percent in 2018 to nearly half of all deferred interest spending in 2020, reflecting pandemic-era changes in spending behavior. By contrast, the share of promotional spending on electronics fell in 2020 for consumers in all tiers and now ranks below healthcare.

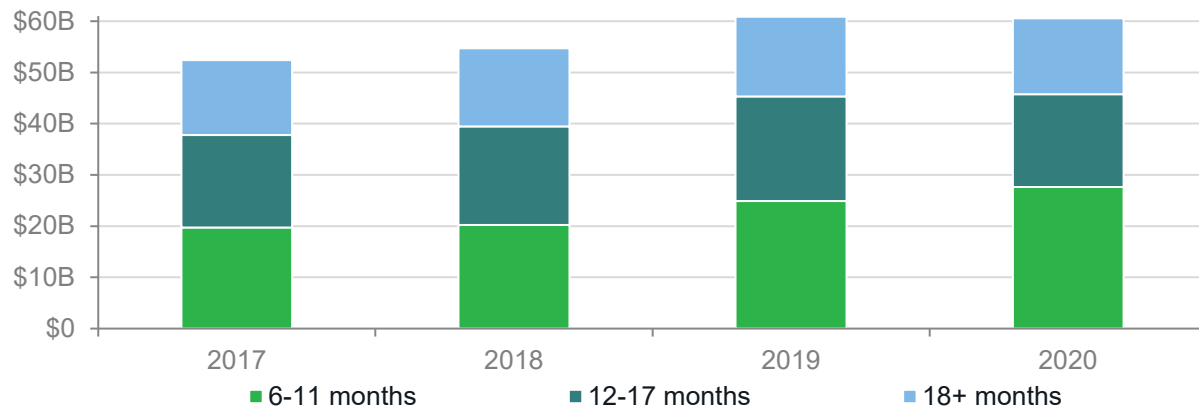
Figure 5: SHARE OF PROMOTIONAL SPENDING BY MERCHANT CATEGORY, 2020 (DI)



Over the past several years, the Bureau has observed a shift toward shorter promotions, as seen in Figure 6. While purchase volume on promotions of 12 to 17 months and promotions exceeding 18 months have remained consistent at about \$15 billion and \$19 billion per year respectively, purchase volume on promotions of 6 to 11 months has grown from \$20 billion in 2017 to nearly \$28 billion in 2020. In 2020, these shorter duration promotional purchases increased while medium and longer-term duration purchases decreased, possibly due to concerns surrounding the longer-term impact of the pandemic on consumer finances.

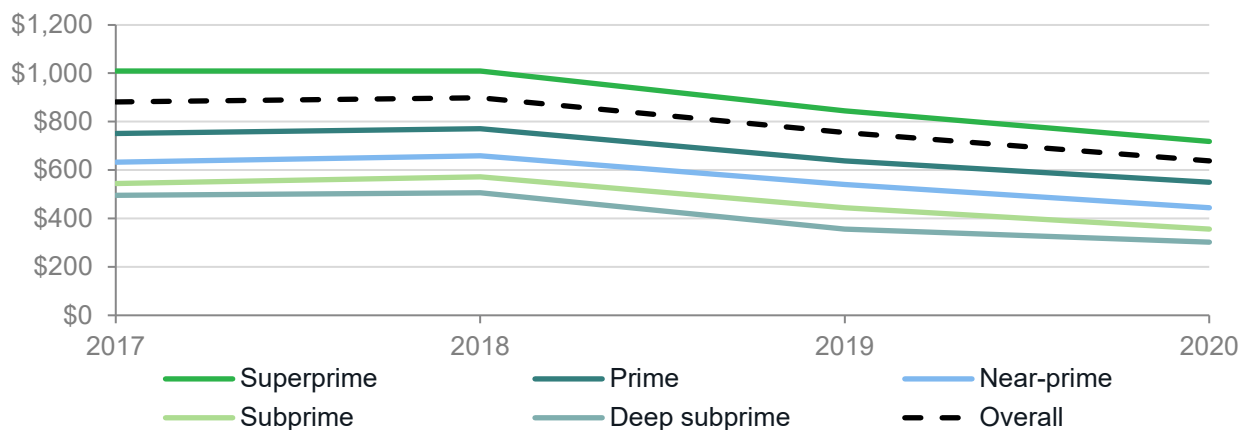
¹⁷¹ See 2017 Report, *supra* note 6, at 104.

Figure 6: TOTAL PURCHASE VOLUME ON DEFERRED INTEREST PROMOTIONS BY DURATION (DI)



Consumers in lower credit score tiers increasingly utilize shorter promotions on average than consumers with higher credit scores. In 2020, 65 percent of promotional purchase volume made by consumers with deep subprime scores had a promotion duration of less than 12 months, compared to 45 percent for superprime. That share has increased from 50 percent in 2017. One explanation may be that promotion length usually increases with the size of the purchase. For example, a \$500 appliance might be six or 12 months, while a \$3,000 furniture purchase could offer a promotional period of several years. The average promotional purchase amount for a consumer with a superprime score is roughly twice that of a cardholder with a deep subprime score. Another reason may be that promotional offers are becoming more common for smaller purchase amounts. The average promotional purchase amount declined from \$899 to \$637 between 2018 and 2020, as shown in Figure 7.

Figure 7: AVERAGE PURCHASE AMOUNT ON DEFERRED INTEREST PROMOTIONS (DI)



5.2.2 Repayment

Rates of promotion repayment within the promotional period have generally increased since the Bureau last reported this rate.¹⁷² The Bureau's 2015 Report found that overall promotion-level and balance-level payoff rates from 2009 to 2013 lay between 76 and 82 percent.¹⁷³ The Bureau's 2017 Report found that promotion payoff rates on six to 17 month promotions originated in 2015 were 72 percent, and balance payoff rates were 74 percent. This report finds promotion payoff rates of 81 percent and balance payoff rates of 82 percent in 2020, a marked increase from previous years.¹⁷⁴

Cardholders of all credit score tiers increased payoff rates in 2020, but the effect was most notable for consumers with below-prime scores. The Bureau's 2013, 2015, and 2017 Reports found deferred interest payoff rates to be strongly correlated with credit score.¹⁷⁵ The correlation between payoff rates and credit score generally persists into the current observation period, as shown in Figure 8.¹⁷⁶ On one end of the spectrum, 89 percent of superprime balances were paid off in 2020, the same percentage as in 2019. In contrast, 62 percent of subprime and deep subprime balances were paid off during the promotion period in 2020, up from 54 and 51 percent respectively in 2019. In terms of the number of promotions, in 2020 cardholders in all

¹⁷² The methodology the Bureau uses has evolved. Payoff rates on deferred interest products can be expressed in several ways, including: (1) the number of total deferred interest promotions in which the full balance is repaid prior to the end of the deferred interest period divided by the total number of deferred interest products originated; and (2) the dollar volume of promotional balances paid in full during the promotional period divided by the total dollar volume of deferred interest balances originated. The 2013 Report generally used the second measure, referred to here as the "balance payoff rate." The 2015 Report used both the first measure, referred to here as the "promotion payoff rate," and the second measure. This report again uses both measures. The rates reported in this report, however, are not directly comparable to those in prior reports for two reasons. First, the issuer samples are different, with the 2017 Report covering a wider range of DI issuers. Second, the 2017 Report generally split the lowest credit tier from the 2015 Report into two separate tiers, with deep subprime now beginning below 580 rather than below 620.

¹⁷³ 2015 Report, *supra* note 6, at 164.

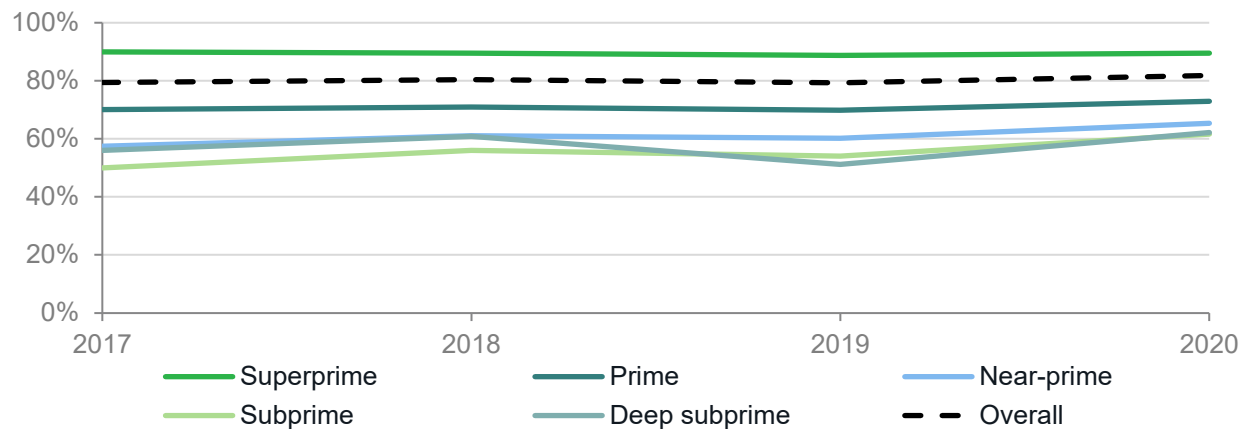
¹⁷⁴ 2017 Report, *supra* note 6, at 108.

¹⁷⁵ 2017 Report, *supra* note 6, at 107-108; 2015 Report, *supra* note 6, at 167-169; 2013 Report, *supra* note 6, at 80.

¹⁷⁶ Consumers with no credit score demonstrated payoff rates in line with the overall averages. They are therefore not shown here.

credit score tiers reached their highest payoff rates since at least 2015, with cardholders with below-prime scores repaying two thirds of their deferred interest promotions within the promotional period, consistent with increased payment rates on credit cards generally as noted in Section 2.4.2.

Figure 8: BALANCE PAYOFF RATE ON DEFERRED INTEREST PROMOTIONS (DI)

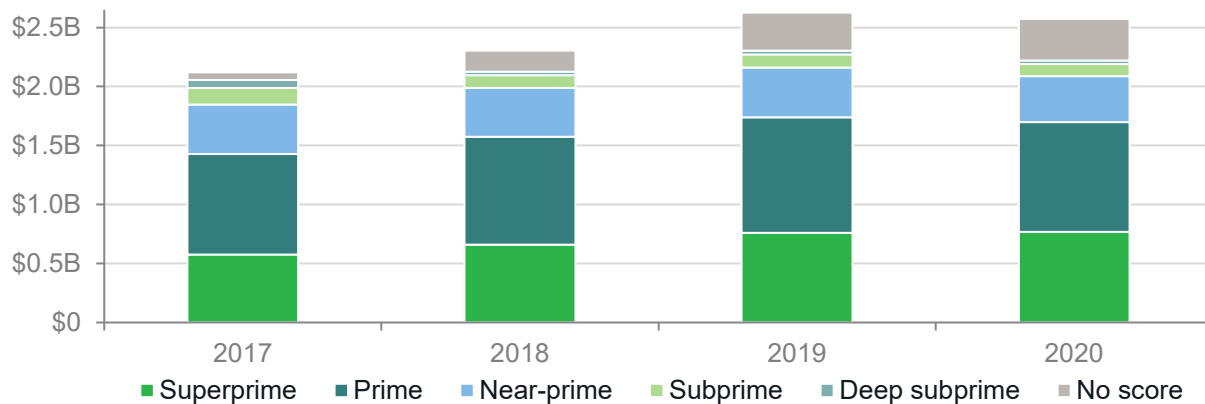


5.2.3 Cost

Consumers who pay off the deferred interest promotion prior to expiration do not pay deferred interest. However, consumers who do not repay, generally incur the full amount of the deferred interest, often incurring significant costs. Those costs have generally been rising over the period for which the Bureau has data: the aggregate amount of deferred interest assessed to consumers increased by 45 percent from 2015 to 2020, to just over \$2.5 billion in total.¹⁷⁷

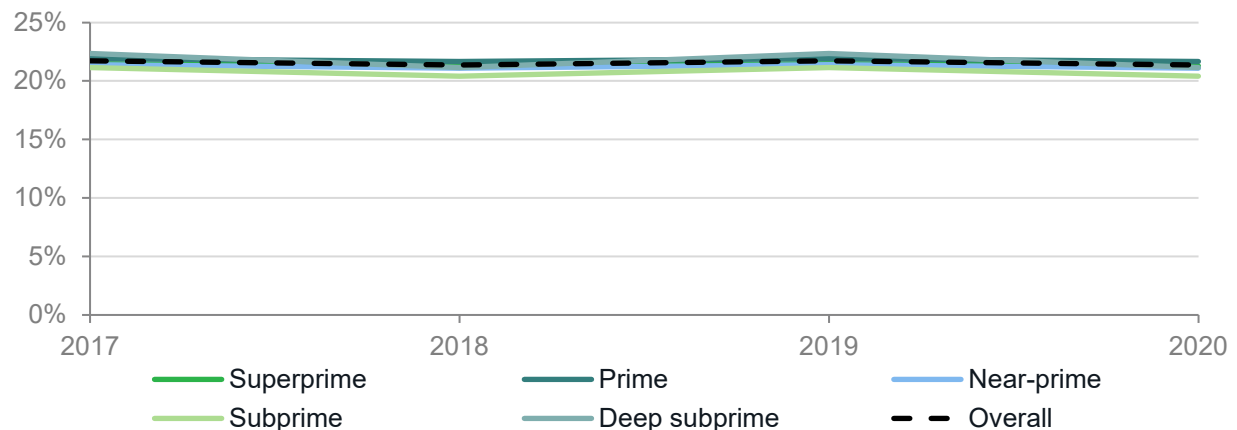
¹⁷⁷ Bureau data do not currently allow for a determination of how much of this growth is driven by volume growth, and how much, if any, is driven by deterioration in payoff rates.

Figure 9: TOTAL DEFERRED INTEREST ASSESSED (DI)



Consumers who fail to pay the balance prior to the end of the promotion are assessed deferred interest at roughly the same effective interest rates regardless of credit score, as shown in Figure 10. Deferred interest promotions are typically conducted on private label cards, which carry APRs that do not vary much between credit score tiers. Naturally, longer promotions carry higher deferred interest amounts at expiration, but on an annualized basis the costs are the same for those that fail to repay during the promotional period.

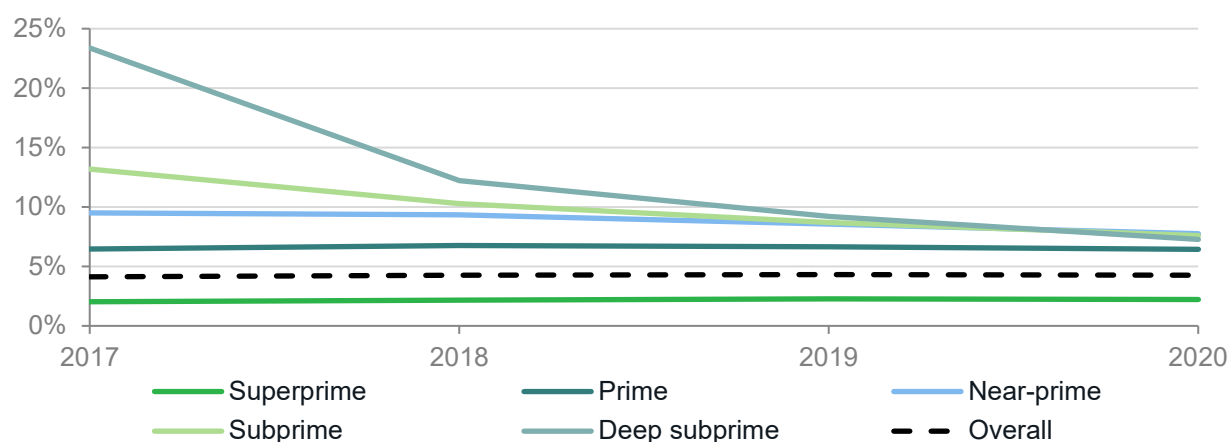
Figure 10: DEFERRED INTEREST ASSESSED AS A SHARE OF PROMOTIONAL PURCHASE AMOUNT FOR PROMOTIONS THAT INCURRED DEFERRED INTEREST (DI)



Consumers in lower score tiers pay relatively more to finance purchases with deferred interest than do cardholders with superprime scores because they are less likely to repay within the promotional period. However, effective costs are declining for cardholders with below-prime scores as their repayment rates increase. Figure 11 shows the amount of deferred interest

assessed in a year as a share of the total deferred interest purchase volume for all promotions in that year by consumer credit score tier. This metric serves as a proxy for expected cost at the time the purchase was made for consumers in each credit score tier. Figure 11 shows cardholders with below-prime scores in 2020 have an expected cost of about 8 percent of the purchase price, while cardholders with superprime scores may expect to pay about 3 percent of the deferred interest purchase amount on average. Rising repayment rates among cardholders with below-prime scores increases the probability that these consumers will repay within the promotional window. Concurrently, private label interest rates have remained steady. Together, these trends result in a lower expected cost for consumers in below-prime credit tiers.

Figure 11: DEFERRED INTEREST ASSESSED AS A SHARE OF ANNUAL PURCHASE VOLUME FOR ALL DEFERRED INTEREST PROMOTIONS (DI)



Deferred interest promotions continue to provide consumers with complex challenges when they decide how to finance a purchase, as well as in making payments on their balances. The Bureau continues to monitor this area for risks to consumers.

5.3 Balance transfers

Balance transfer offers enable the consumer to potentially reduce the cost of carrying their debts. Some credit cards offer promotional balance transfers rates to incentivize consumers to apply for or increase their use of a credit card account. Generally, balance transfers shift existing balances from other cards onto the new one; consumers are typically offered a lower interest rate on the transferred balance (often zero percent) but generally are also required to pay an

upfront fee assessed as a share of the transferred balance. In addition to transfers of debt from another credit card, most balance transfer offers allow consumers to pay off debt related to other loans and bills.¹⁷⁸ By the conclusion of the promotional period, if the consumer does not execute another balance transfer or has not repaid the balance, the remainder of the balance becomes subject to a non-promotional interest rate, which is almost always higher than the balance transfer promotional rate.

5.3.1 Prevalence

Balance transfers became significantly less common during the pandemic, though evidence suggests those offers may be returning as the economic outlook stabilizes. Following four years of growth, balance transfer volume fell 36 percent year-over-year to \$35 billion in 2020, and quarterly balance transfer incidence fell from 0.9 percent in 2019 to 0.4 percent at year's end in 2020, as issuers looked to limit exposure to potential future losses given the uncertain economic outlook.¹⁷⁹ In 2019, over half of total acquisition mail volume included promotional balance transfer offers.¹⁸⁰ In 2020, the minority of direct mail offers included promotional rates, in tandem with a rapid decline in mail volume overall.¹⁸¹ By year-end 2020, balance transfer incidence began to tick back up and appears to be returning to pre-pandemic levels as the economy recovers.¹⁸²

¹⁷⁸ Many transactions effectuated using a “convenience check” may also be treated as balance transfers by issuers. However, not all such transactions are so treated; depending on how it is used, some may be treated similarly to cash advances. The Bureau therefore excludes convenience check transactions from this analysis (and from its analysis of cash advances in Section 5.4), acknowledging that this likely excludes at least some volume that may be identical or near-identical from the consumer perspective.

¹⁷⁹ See AnnaMaria Andriotis & Veronica Dagher, *Credit-Card Balance Transfers Are Harder to Come By*, Wall St. J. (June 6, 2020), <https://www.wsj.com/articles/credit-card-balance-transfers-are-harder-to-come-by-11591435801>.

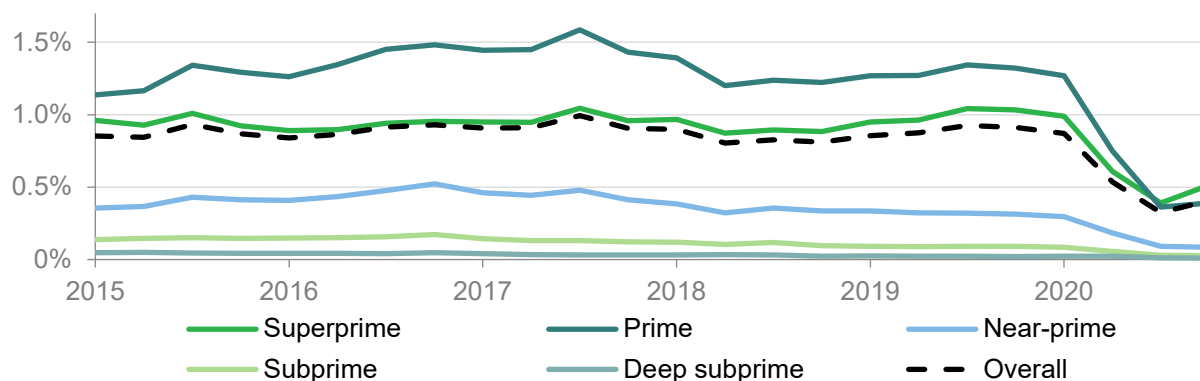
¹⁸⁰ Data provided by Competiscan.

¹⁸¹ *Id.* See Section 4.1 for further information on direct mail volume in 2020.

¹⁸² See Sara Rathner, *Why Balance Transfer Credit Cards Are Starting to Blossom Again*, Nerdwallet (June 4, 2021), <https://www.nerdwallet.com/article/credit-cards/balance-transfer-credit-cards-starting-to-blossom-again>.

As shown in Figure 12, balance transfers are primarily utilized by consumers with prime and superprime credit scores. This remained the case even as balance transfer incidence declined sharply across all credit score tiers in 2020—as a percentage of total balance transfer volume in 2020, cardholders with prime scores made up 78 percent and 20 percent respectively.

Figure 12: QUARTERLY BALANCE TRANSFER INCIDENCE, GENERAL PURPOSE (Y-14+)



The average size of balance transfers has not changed significantly since the Bureau’s last report. Balance transfers for cardholders with superprime scores averaged roughly \$5,600 in the fourth quarters of both 2019 and 2020. Balance transfers by cardholders with prime scores averaged about \$4,300 in the fourth quarter of 2020, down slightly from just under \$4,500 in the same quarter a year prior.

5.3.2 Cost

Measured as a percentage of the amount that cardholders transfer, the average fee for balance transfers has increased since 2018. Balance transfers generally charge an initial fee, followed by a low interest rate on the transferred balance for a set period of time or until the balance is repaid.¹⁸³ From 2015 to 2018, the average balance transfer fee declined from 3.2 to 2.8 percent. In 2019 and 2020, the average balance transfer fee was 3.0 percent. Consumers use balance transfers to take advantage of low promotional interest rates. In both 2019 and 2020, the vast

¹⁸³ Some issuers offer introductory no fee balance transfers for new cards, but this does not appear to be a common practice in the industry.

majority of credit card solicitations sent to new prospects included an introductory 0 percent balance transfer rate.¹⁸⁴ Depending on the duration of the promotion and the degree of interest rate reduction, as well as the consumer's repayment behavior, this cost savings can be significantly higher than the upfront cost of the initial balance transfer fee.

Besides the initial fee and interest, consumers may also incur costs associated with the loss of a grace period on their purchase balances when making a balance transfer, which can result in an increase in interest charges on other purchases. Cardholders who were using the card to transact prior to the balance transfer stand to lose their grace period on new purchases, even if they continue to repay the full amount of new purchases each month. For example, a “transacting” consumer that routinely spends around \$500 on their credit card each month and pays that balance in full, that then transfers a balance to that card and does not pay that balance in full, may begin incurring interest charges on their monthly \$500 spending at the card's retail APR rate, even if the transferred balance is subject to a zero percent interest rate.¹⁸⁵ While transacting accounts represent only a minority of all accounts that effect balance transfers, as noted in a prior report, most of these formerly-transacting cardholders went on to make purchases before the balance transfer was paid, incurring interest charges on those new purchases and increasing the effective cost of the transfer.¹⁸⁶

¹⁸⁴ Data provided by Competiscan.

¹⁸⁵ Some issuers permit consumers to enjoy a grace period on new purchases while revolving a transferred balance during the promotional period, but the prevailing practice appears to be that revolving balance transfers does eliminate the grace period on regular purchases. Issuers are required to provide certain disclosures to consumers which include information regarding the potential loss of a grace period when balances are not paid in full. 12 C.F.R. § 1026.6(b)(2)(v). Issuer disclosures on balance transfers show that some issuers have revised their applicable grace period policies. These disclosures show that some issuers now allow consumers to retain their grace period while revolving a transferred balance so long as they pay the balance generated by new purchases in full each month. Although issuers lose some interest revenue from this type of change, consumers stand to benefit from balance transfer costs being clearer. In addition, issuers may realize some benefits. The decreased cost of new purchases may cause increased use of the card for such purchases. In addition, the issuer may avoid any customer service costs associated with the prevailing grace period policy on balance transfers. *See* 2017 Report, *supra* note 6, at 193.

¹⁸⁶ *See* 2015 Report, *supra* note 6, at 126; *see also* 2017 Report, *supra* note 6, at 191-193.

5.4 Cash advances

The cash advance feature, offered on many general purpose credit cards, allows consumers to obtain cash or cash equivalents using a portion of their card’s credit line (20 percent of the line is common), sometimes called the “cash line.”¹⁸⁷ Unlike balance transfers, cash advances are available to any cardholder with sufficient available cash credit line on a card that has the feature. Consumers can access cash advances through a variety of means; ATM withdrawals may be the most well-known form of cash advance, but they are not the only one. Issuers may treat certain credit card purchases as cash advances; this can include such uses as the purchase of chips at a casino, gold at a bank, foreign currency, traveler’s checks, gift cards, prepaid cards, convenience checks, and virtual currencies;¹⁸⁸ The funding of peer-to-peer transfers may also be treated by some issuers as a cash advance.¹⁸⁹ In some cases, when a consumer links a credit card to a deposit account in order to cover overdrafts on the latter, the credit card issuer will treat that overdraft as a cash advance.

5.4.1 Prevalence

Cash advance volumes were mostly flat leading up to the pandemic but fell sharply during the pandemic and remain well below previous levels. Prior to the pandemic, cash advance volume averaged roughly \$3 billion per quarter with some seasonal fluctuations, typically showing slightly higher volumes in the third quarter of each year. As shown in Figure 13 below, the second quarter of 2020 saw cash advance volume decline to less than \$2 billion before rising to roughly \$2.5 billion for the remainder of 2020. One explanation for the decline in cash advance

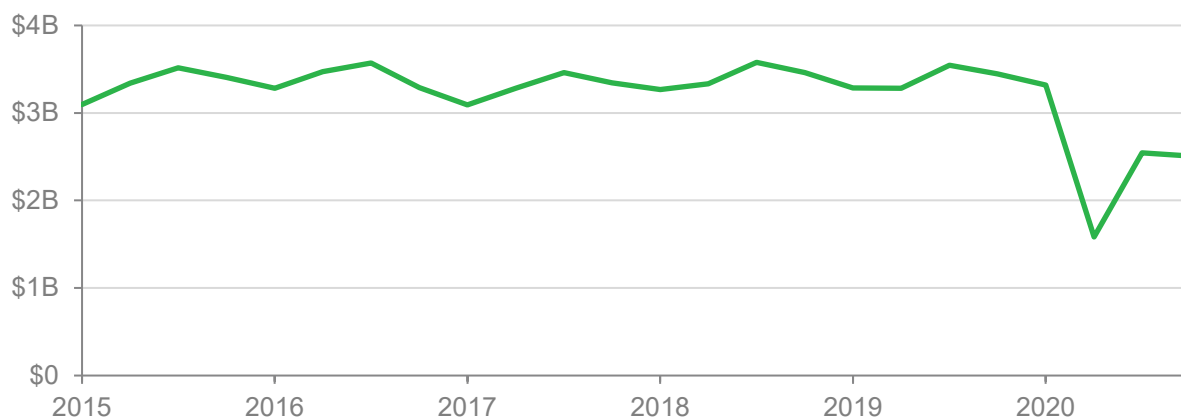
¹⁸⁷ To the Bureau’s knowledge, some private label cards provide a cash advance feature at the point of sale, but the practice is not common and does not fall within the scope of this section.

¹⁸⁸ Many transactions effectuated using a “convenience check” may also be treated as cash advances by issuers. However, not all such transactions are so treated; depending on how it is used, some may be treated similarly to balance transfers. The Bureau therefore excludes convenience check transactions from this analysis (and from its analysis of balance transfers in Section 5.2), acknowledging that this likely excludes at least some volume that may be identical or near-identical from the consumer perspective.

¹⁸⁹ See Ann Carrns, *Beware the Fees That Come With Some Money Transfers on Apps*, N.Y. Times (Apr. 24, 2020), <https://www.nytimes.com/2020/04/24/your-money/fees-mobile-app-payments.html>. See also Aaron Hurd & Dia Adams, *Using A Credit Card To Send Money On PayPal—Should You?*, Forbes (June 3, 2021), <https://www.forbes.com/advisor/credit-cards/using-a-credit-card-to-send-money-on-paypal-should-you/>.

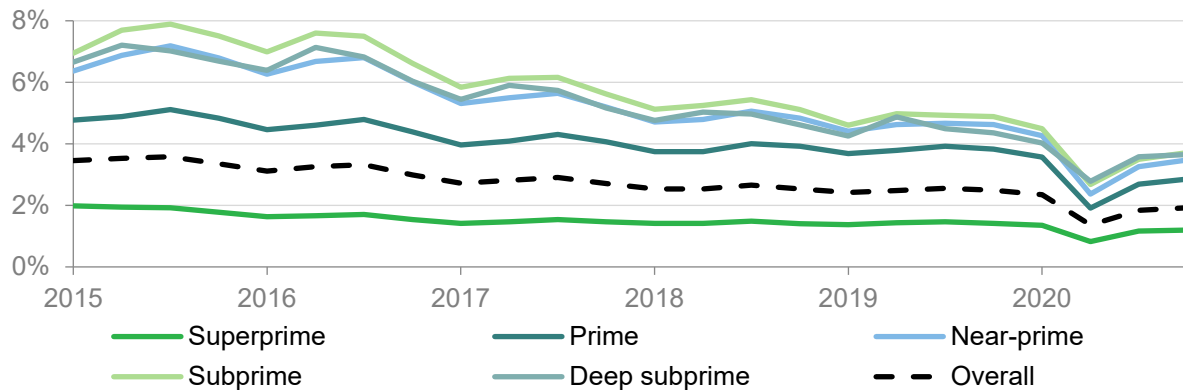
volume may be that measures aimed at mitigating the economic impact of COVID-19, such as economic stimulus payments and enhanced unemployment benefits, met some of the need consumers may otherwise have had for cash during the pandemic. This is generally a positive sign for consumers, as cash advances can be a relatively costly form of credit, as discussed in Section 5.4.2.

Figure 13: QUARTERLY CASH ADVANCE VOLUME, GENERAL PURPOSE (Y-14+)



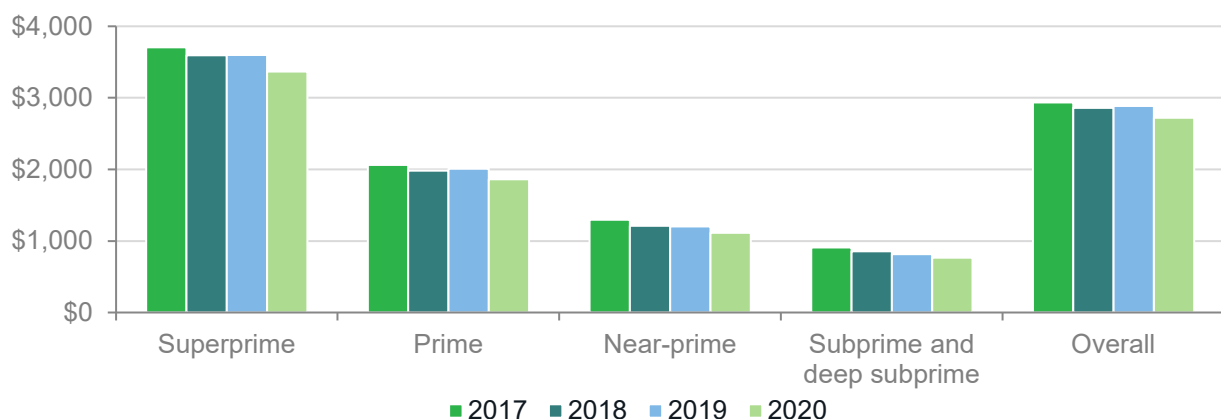
Cash advance usage has continued its decline for consumers in all credit score tiers, even omitting the singular decline in the second quarter of 2020. Cash advance volumes may have been steady prior to the pandemic, but as the number of credit cards has increased, the incidence of cash advance feature usage has declined. Cash advance incidence is relatively uniform across credit score tiers, except for consumers with superprime scores who use cash advances markedly less than all other cardholders. Cash advance incidence has continued to decline over the last few years, particularly in the below-prime market segment, as shown in Figure 14.

Figure 14: QUARTERLY CASH ADVANCE INCIDENCE, GENERAL PURPOSE (Y-14+)



Average cash advance line is greater for consumers with higher scores, with superprime cardholders averaging \$3,000 per card, while below-prime score tiers average \$1,000 or less. Most credit cards restrict access to the cash advance feature by stipulating a separate smaller cash advance line that is also part of the cardholder's overall line. Cardholders may utilize the cash advance feature in an amount that is the smaller of either the remaining available line or the maximum cash advance line on the card. Given the utilization rate for cards held by consumers in below-prime tiers tends to be high, cash advances are likely more limited by the remaining card balance than the cash advance line amount. With minimum per-use fees, this might mean a cash advance may be more expensive as a share of the amount consumers receive, as discussed in Section 5.4.2.

Figure 15: AVERAGE CASH ADVANCE LINE, GENERAL PURPOSE (Y-14)



5.4.2 Cost

The cash advance cost structure can be complex, and costs depend on the amount advanced, upfront fees, interest rates, and the timing of repayment.¹⁹⁰ Fee structures can be relatively complex, with some card agreements stipulating different cash advance fee percentages and minimum fee amounts for different cash advance transactions, such as lower fees for ATM transactions and higher fees for cash equivalents like casino chips.¹⁹¹ Cash advance APRs are typically higher than purchase APRs, and these transactions are not usually subject to any kind of grace period, meaning they begin accruing interest at that higher APR at the point that the cash advance is taken, even if the cardholder pays their balance in full every month.¹⁹²

Cash advance fees overall fell in 2020 as a result of decreased usage, while remaining steady as a share of cash advance volume. Fee volumes had been stable prior to the pandemic, totaling just under \$750 million per year for issuers in the Y-14+ data.¹⁹³ In 2020, due to declines in usage, cash advance fee volume fell to roughly \$550 million, a decline of nearly 27 percent. As a share of volume, cash advance fees averaged 5.0 percent in 2019 and 2020, slightly lower than the 5.2-5.3 percent seen from 2016 to 2018. Cash advance fee ratios are noticeably higher for cardholders in lower score tiers, as shown in Figure 16. Minimum fixed fee amounts for cash advances in a two-way pricing structure, such as “\$10 or 5%,” can translate to high cash advance fee ratios for cardholders who take a small dollar amount cash advance. This is more often the case for cardholders with little remaining available credit on their cards.

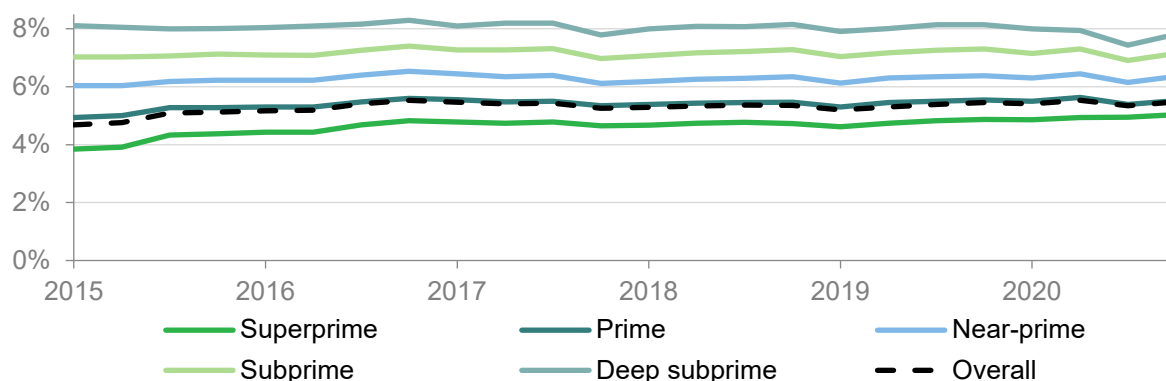
¹⁹⁰ While the vast majority of credit cards charge an upfront fee for cash advances, the Bureau is aware of at least one card that does not.

¹⁹¹ See, e.g., U.S. Bank, *Cardmember Agreement for U.S. Bank National Association Visa® and Mastercard® Classic, Gold and Platinum Accounts*, https://applications.usbank.com/oad/teamsite/decisioning/usbank/docs/global_default/FRO06213482_03_USB.pdf.

¹⁹² Indirect costs to cardholders such as interest on balances from purchases that would otherwise be treated as interest free due to a grace period are not included in calculations of cash advance fee costs, but remain an important consideration.

¹⁹³ Due to a technical error, the aggregate cash advance fee volume figure was misreported in the 2019 Report and has therefore been restated correctly here.

Figure 16: QUARTERLY CASH ADVANCE FEES RELATIVE TO CASH ADVANCE VOLUME, GENERAL PURPOSE (Y-14+)



5.5 COVID-19 response

The onset of COVID-19 across the United States in the second half of the first quarter of 2020 triggered a sharp response from consumers, businesses, and government entities. The sum effect of those responses was to abruptly render many ordinary activities prohibited or impracticable, which severely impacted the financial security of many consumers. As described below, individuals were advised to avoid unnecessary travel outside the home, many businesses closed temporarily or permanently, and many workers were laid off or furloughed.

That economic crisis had two significant impacts for credit card issuers. First, as described in more detail below, credit card issuers' operational models suddenly became untenable, necessitating a drastic and rapid shift to new ways of doing business. Second, the widespread cessation of a great deal of in-person activity sparked the swiftest deterioration in economic conditions in modern history, imperiling the ability of millions of consumers to make adequate, timely payments of their debts.

This report generally focuses on the state of the consumer credit card market, and in particular the impact of COVID-19 on consumer cardholders. The pandemic also had a significant effect on the companies that issue credit cards to consumers; how those issuers responded to the crisis was a major factor in the ultimate effects of the pandemic on consumer cardholders. This section therefore summarizes the impact of COVID-19 on the largest credit card issuers, as well as the responses by those issuers to the pandemic. First, this section examines the operational

response of issuers to COVID-19, including actions relating to staffing, risk management, and account servicing. Second, it focuses on issuers' relief efforts.¹⁹⁴

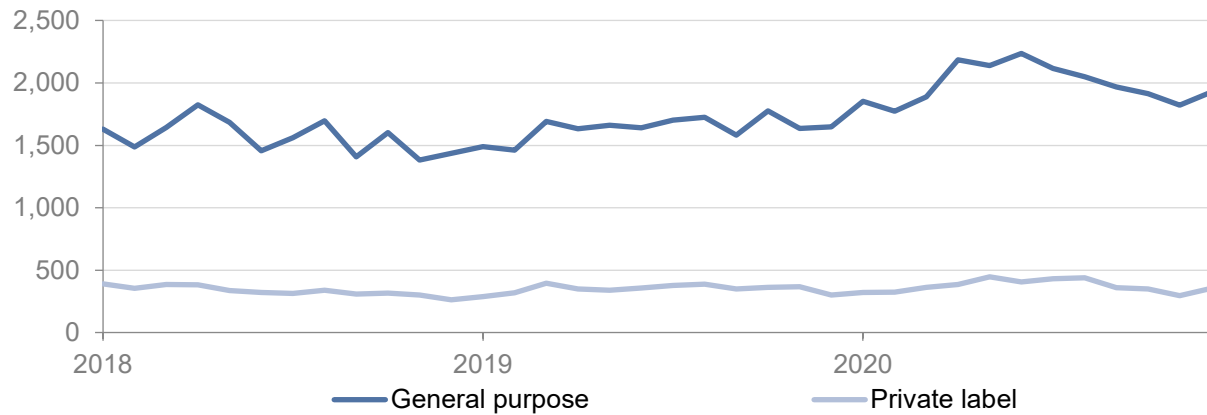
With regard to issuers' operational posture, issuers moved quickly to adjust operations in response to the new conditions precipitated by COVID-19; while issuers generally responded similarly in some ways (e.g., shifting employees to remote work wherever possible), their mitigation attempts varied more in others (e.g., existing credit line management). Issuers struggled to maintain existing levels of account servicing, especially at the onset of the pandemic. Issuers' relief efforts likely resulted in consumers preserving billions of dollars in liquidity following, and especially immediately following, the onset of the pandemic.

Overall, consumers expressed heightened dissatisfaction with their credit cards following the onset of the pandemic; complaints to the Bureau relating to credit cards rose significantly beginning in the first quarter of 2020, and remain at levels elevated relative to the recent pre-pandemic years, as shown below in Figure 17.¹⁹⁵

¹⁹⁴ Except where noted, data supporting this section come from the Bureau's MMI survey. Therefore, and as noted elsewhere in this report, it only represents the experiences of the largest credit card issuers, with the attendant caveats also noted elsewhere in this report. While out of scope, the Bureau notes significant evidence for operational impacts and relief efforts made by smaller banks and credit unions. *See, e.g.,* Laura Alix, *Small-dollar loans highlight banks' coronavirus relief efforts* (Mar. 25, 2020), <https://www.americanbanker.com/news/small-dollar-loans-highlight-banks-coronavirus-relief-efforts>.

¹⁹⁵ *See supra* note 2.

Figure 17: MONTHLY CREDIT CARD COMPLAINTS



However, overall complaints to the Bureau rose significantly; the total volume of complaints received by the Bureau in 2020 exceeded 2019 volumes by over 50 percent, and certain sectors saw much larger increases in complaint volume, either in raw totals, relative to previous volumes, or both.¹⁹⁶

5.5.1 Operational impacts and response

COVID-19 necessitated a sharp adjustment in the operational posture of major credit card issuers. Credit card issuers were faced with a series of challenges in how to address demand for credit, the need for relief, and the servicing of existing accounts. Issuers were forced to contend with all of these challenges simultaneously, in a compressed timeframe, with a high degree of uncertainty regarding the short and long-term impact of the pandemic on the economy. Actions taken by issuers to address these challenges varied significantly, making a comprehensive picture of issuers' response to COVID-19 difficult to assemble, especially in those areas where issuers' responses proved more varied.¹⁹⁷

¹⁹⁶ See *Consumer Response Annual Report*, *supra* note 1, at 9.

¹⁹⁷ Note that, while drawing on a different source of data representing a different group of issuers, the Bureau's Winter 2021 Supervisory Highlights draws many similar conclusions about issuers' operational challenges and responses in the wake of COVID-19, as well as relating to issuer relief efforts. See *Supervisory Highlights*, *supra* note 13, at 13-14.

UNDERWRITING AND CREDIT MANAGEMENT

All surveyed issuers reduced new credit availability in response to the onset of the pandemic. Among the most common measures were raising underwriting standards on new accounts and pausing or raising underwriting standards on credit line increases (both proactive and reactive).¹⁹⁸ Many issuers also reported limiting or raising underwriting standards on certain secondary features on accounts, such as balance transfers, cash advances, or over limit transactions.

Issuers' approach to the lines of credit already available to their cardholders varied. Some issuers reported decreasing credit lines and closing inactive or high-risk accounts at a higher frequency.¹⁹⁹ However, other issuers reported at least temporarily pausing credit line decreases, certain types of account closures, and certain types of pricing increase activity as well as providing other forms of targeted credit expansion.

ACCOUNT SERVICING

COVID-19 led to a large and sudden increase in consumer servicing needs. This spike was driven by requests for relief (discussed in the following subsection) and by a wave of disputed transactions. While MMI data on disputes are limited and varied, they nonetheless point to a sharp uptick in the volume of consumer disputes around the onset of the pandemic compared to the prior year, with an even sharper increase in dollars at stake in those disputes. These disputes were disproportionately driven, by higher-score consumers disputing transactions on general purpose cards; transactions directly related to travel expenditures experienced an even larger relative spike in transactions and dollar disputed compared to other categories.

¹⁹⁸ See *supra* note 193.

¹⁹⁹ For more on credit line management, see Section 4.2.3. Some issuers also discussed these actions in earnings calls early in the pandemic. See, e.g., Synchrony Financial, *Q1 2020 Results – Earnings Call Transcript*, Seeking Alpha (Apr. 21, 2020), <https://seekingalpha.com/article/4421711-synchrony-financials-svf-ceo-brian-doubles-on-q1-2021-results-earnings-call-transcript>; (“[W]e’re continuing to utilize internal and credit bureau triggers to dynamically reevaluate the customers’ creditworthiness to manage credit exposure, as well as leveraging the latest technology to passively authenticate customers and more selectively target high risk behavior.”); American Express, *Q2 2020 Results – Earnings Call Transcript*, Seeking Alpha (July 24, 2020), <https://seekingalpha.com/article/4369796-american-express-axp-ceo-steve-squeri-on-q2-2020-results-earnings-call-transcript>. (“[W]e have been very diligent about looking at people who are inactive card members and canceling those cards.”).

At the same time consumer servicing needs were increasing, the pandemic also severely impacted the ability of credit card issuers to process consumer servicing requests. This impact was most sharply felt at call centers both domestic and abroad, which issuers reported were largely closed or extremely restricted in their operations for an extended period following the onset of the pandemic due to safety concerns and public health-driven closure orders. However, similar impacts also reverberated through other aspects of relevant “back office” operations—issuers reported difficulties and delays in processing both inbound and outbound mail, difficulties maintaining digital servicing portals, and inadequate levels of total or appropriately-trained staff to handle certain types of disputes or aspects of the dispute process.

Issuers responded to these servicing constraints by implementing measures to bolster capacity and reduce customer wait times. Some measures included allowing staff to work from home where feasible, adding training to allow more staff to handle disputes, hiring new staff, increasing allowances for staff to work overtime, increasing dollar-amount thresholds for certain forms of expedited dispute resolution, and making adjustments to customer communications across various channels. In many cases issuers reported deploying these measures rapidly, within weeks or even in some cases days of the March 13, 2020 federal emergency declaration.²⁰⁰

Consumers who requested to speak with a customer service representative nevertheless experienced much longer wait times around the onset of the pandemic. On average, consumers experienced wait times in the second quarter of 2020 that were many multiples of both the first quarter of 2020 and the second quarter of 2019, and in some cases an order of magnitude longer. These wait times generally fell substantially over the course of the year; by the fourth quarter of 2020, while most issuers reported higher wait times than the comparable quarter of 2019, those wait times were nevertheless much closer to levels observed in 2019 in most cases.

²⁰⁰ See 85 FR 15337. Notably, issuers almost wholly abstained from availing themselves from the flexibility offered by the Bureau’s May 3, 2020 “Statement on Supervisory and Enforcement Practices Regarding Regulation Z Billing Error Resolution Timeframes in Light of the COVID-19 Pandemic,” which “inform[ed] creditors of the Bureau’s flexible supervisory and enforcement approach during this pandemic regarding the timeframe within which creditors complete their investigations of consumers’ billing error notices.” See Bureau of Consumer Fin. Prot., *Statement on Supervisory and Enforcement Practices Regarding Regulation Z Billing Error Resolution Timeframes in Light of the COVID-19 Pandemic* (May 3, 2020), https://files.consumerfinance.gov/f/documents/cfpb_statement_regulation-z-error-resolution-covid-19_2020-05.pdf.

There was not, however, an apparent spike in the total volume of consumer calls to surveyed issuers following the onset of the pandemic. Most issuers reported a decline in total call volumes in the second quarter of 2020 from the prior quarter, with none reporting more than a slight uptick. This contrasts with 2019, when quarter-over-quarter volumes were much more stable in the first half of the year. This decline persisted into the remainder of the year, with surveyed issuers reporting (in aggregate) receiving only about five-sixths of the total incoming call volume in the second half of 2020 as they did in 2019. This decline was also observable for the subset of calls in which a consumer requested to speak with a customer service representative. Such calls also represented a relatively constant share of all calls over 2019 and 2020. These findings suggest that wait time spikes were largely driven by decreased capacity by issuers to field calls, rather than an increase in such calls, though Bureau data cannot rule out the possibility that the composition of calls made to issuers increased in complexity or difficulty.²⁰¹

In some ways, the consumer impact of the acute destabilization in issuer customer service might have been worse if issuers had not established digital servicing channels prior to the pandemic. As described in more detail in Section 7.2.1 below, increasing numbers of consumer credit card accounts are enrolled in digital servicing portals. While Bureau survey data do not directly allow for measuring this, other information indicates that consumers expanded their use of digital servicing channels for their financial accounts.²⁰² If consumers increasingly substituted such channels for servicing activity they may have previously done via phone or at a branch location, this could explain why issuers did not report a large spike in consumer calls.

ADDITIONAL OPERATIONAL IMPACTS

Issuers reported a variety of other operational changes in response to COVID-19 and its effects. For example, many issuers made significant changes to their overall marketing and solicitation posture, reducing, or eliminating solicitations and messaging with themes that may have been seen as dissonant with the moment (e.g., exhortations to spend on travel). Issuers refocused

²⁰¹ For example, the Bureau's debt collection-specific data indicates that issuers saw a large influx of calls relating specifically to consumer relief, which may have been more complex or time-consuming to resolve than many common pre-pandemic call subjects. See Section 6.5 *infra*.

²⁰² See e.g., Ellen Sheng, *Coronavirus crisis mobile banking surge is a shift that's likely to stick*, CNBC (May 27, 2020), <https://www.cnbc.com/2020/05/27/coronavirus-crisis-mobile-banking-surge-is-a-shift-likely-to-stick.html>.

efforts on more consonant themes and on messaging specific to relief. Several issuers reported accelerating existing efforts to transition their portfolios to contactless cards.²⁰³ Several issuers also made significant changes to their rewards programs; for example, several issuers extended the timeframes for earning sign-up bonuses or avoiding rewards expiration, or allowed accumulated rewards to be redeemed in ways perceived as better suited to the moment.

5.5.2 Consumer relief

Data show that a large and likely-unprecedented number of consumers received some form of relief on their credit card debts following the onset of COVID-19, all of which was provided voluntarily by issuers. Unlike servicers of federally-backed mortgages, which were mandated by the CARES Act to provide certain types of forbearance to mortgagors, card issuers were not subject to any federal mandate to provide relief on consumers debts. This section discusses first the form of consumer relief offered by major credit card issuers and second the impact of that relief.²⁰⁴ This section describes only relief provided to consumers by issuers that directly impacted their credit card accounts; other forms of relief which may have been offered and which could have indirectly impacted consumers' ability to manage their credit card debts are not considered here. While this section relies solely on MMI data, other sources of information supplement and generally support reported findings.²⁰⁵

²⁰³ Usage of contactless payment methods increased significantly after the onset of COVID-19 (both in the U.S. and in other jurisdictions), likely due to public perceptions that such methods entailed a lower risk of transmission of COVID-19. For more information regarding contactless payment adoption, *see* Section 7.2.2.

²⁰⁴ Issuers represented by these data represent a large portion of the market but are not necessarily representative of the portion of the market not covered by the data the Bureau receives. Additionally, issuer practices regarding the measurement and tracking of the scope and impact of their relief efforts varied considerably, limiting the Bureau's ability to draw precise conclusions from the data provided. The COVID-19 crisis was unprecedented in severity and swiftness as well as in its impact on issuers' operations, but the Bureau expects this experience will inform the ongoing efforts of credit card issuers and other consumer finance companies to design strategies to both directly address future crises as well as more-robustly track the impacts of those strategies to better allow for their evaluation and improvement.

²⁰⁵ *See, e.g.,* Auriemma Research, *Impact of Credit Line Changes and Loan Forbearance, Attitudes toward Low or No-APR Cards, and 'Refer a Friend' Programs*, at 34-42 (Apr. 2021). *N.b.* that many credit card issuers are also publicly-traded, and many such issuers provided information regarding the structure, take-up, and impact of their relief efforts in mandatory filings as well as associated materials.

FORM OF RELIEF

Issuers generally reported offering relief programs to consumers affected by natural disasters or other hardships prior to COVID-19. These programs vary widely across a number of key criteria, including eligibility, form of relief and benefit, length, other conditions of receiving the benefits, and terms of exit, with different programs serving different purposes or functions in managing consumer accounts. While some commonalities were prevalent across issuers' programs, no two issuers offered exactly the same suite of relief programs.

Many surveyed issuers offered short- and long-term payment plans, which generally allowed consumers to address outstanding debts by reducing interest rates and payment amounts due for the duration of the program; these programs were structured to allow distressed consumers to escape delinquency and reduce their indebtedness, but also generally restricted a consumer's use of the card during enrollment.

Some issuers also reported offering a variety of short-term relief programs for consumers affected by natural disasters. The most common such type of program generally allowed consumers in areas affected by natural disasters to reduce or skip a required payment, to temporarily suppress certain fees, and/or to forestall certain other activities and events associated with their account (for example, blocking credit line decreases that may have otherwise occurred). Other issuers offered programs with similar benefits, but not explicitly targeted or limited to consumers affected by natural disasters.

All surveyed issuers reported offering relief specific to COVID-19. Issuers reported developing and deploying new relief programs, and/or modifying existing relief programs within weeks of the March 13, 2020 federal emergency declaration. All issuers offered a program which allowed consumers to skip payments, with some issuers also offering COVID-19-specific programs allowing for relief on a longer timescale. No issuer reported freezing access to, discarding, or otherwise substituting COVID-19 relief for existing programs. Issuers generally reported engaging in significant marketing campaigns around their relief programs, especially following the onset of the pandemic, using a variety of channels to inform consumers about the existence of these programs and key details, such as eligibility and impact on account status.

Upon request, all issuer "skip-a-pay" programs allowed consumers to forgo making monthly minimum payments, including any finance charges, without any impact on an account's delinquency status. Issuers generally allowed for broad eligibility, though some issuers restricted access to skip-a-pay programs to accounts that were not already severely delinquent

and/or in certain other statuses (for example, bankruptcy).²⁰⁶ Issuers generally reported requiring applicants to attest to COVID-19-induced hardship, but did not require consumers to provide documentation or other evidence of such hardship in order to obtain relief.

While issuers generally waived any late or insufficient funds (NSF) fees associated with the account in that cycle, issuers varied more in how they handled interest charges. Some issuers waived finance charges as part of their skip-a-pay programs, while others did not (while still allowing payment of those charges to be deferred while consumers were enrolled); still other issuers handled different types of interest charges differently (for example, waiving monthly finance charges generally while assessing-and-deferring certain promotional interest charges). Most issuers waived payments for a single cycle upon request, though some waived more, and all issuers allowed consumers to re-enroll in skip-a-pay programs for several consecutive cycles.

Some issuers reported modifying or withdrawing certain aspects of their COVID-19 relief approach over the course of 2020. For example, some issuers who initially waived finance charges for skip-a-pay consumers later reinstated them on a deferred basis; some issuers reduced the number of cycles for which a consumer qualified after a single enrollment, or capped the total number of consecutive cycles for which a consumer could be enrolled.

Among the Bureau's statutory objectives is to ensure "outdated, unnecessary, or unduly burdensome regulations are regularly identified and addressed in order to reduce unwarranted regulatory burdens."²⁰⁷ As part of its MMI survey, the Bureau asked issuers whether any provision of any federal consumer financial law (as defined in 12 U.S.C. § 5481(14)) inhibited, impeded, or prevented them from offering any relief program they considered, or impacted the scope or terms of any relief program they offered. All issuers responded in the negative. The Bureau continues to monitor consumer financial markets for indications that provisions of

²⁰⁶ While Bureau data does not allow for determining whether consumers who had been struggling previously with their indebtedness had access to relief programs in practice, other data suggest a significant share of such consumers were able to access issuer relief — per Auriemma, "As of Q3-20, 55% of cardholders who had missed a payment in the past 12 months were offered a forbearance option from a credit card issuer. 75% of those individuals took their credit card issuer up on the offer, likely contributing to the lower proportion who missed a payment by Q4-20." See Auriemma Research, *2020 Trend Database*, Cardbeat, at 7.

²⁰⁷ 12 U.S.C. § 5511(b)(3).

federal consumer financial law or their implementing regulations may cause undue burden or otherwise entail unintended adverse consequences for consumers.²⁰⁸

IMPACT OF RELIEF

Large numbers of consumers benefitted from issuers' relief programs in 2020. Bureau data indicate that approximately 25 million consumer credit card accounts entered relief programs in 2020, representing approximately \$68 billion in consumer debt subject to voluntary issuer relief. Entry into relief was concentrated around the onset of the pandemic; the second quarter alone saw over two-fifths of the year's entry into relief by number of accounts (and over half by amount of consumer debt); by the fourth quarter, entry into relief had declined to levels closer to pre-COVID-19 levels, though it was still elevated.

Payment-deferral programs were the major driver of the robust increase in relief, though fee reversals and waivers or interest rate reductions were also more common in 2020.²⁰⁹ Over 13 million accounts received some form of payment deferral (interest-accruing or non-interest accruing) representing over \$50 billion in consumer indebtedness.²¹⁰ These figures were well over an order of magnitude higher than the comparable figures for 2019. The bulk of the remaining relief consisted of fee reversals or waivers, which were also elevated compared to 2019, with accounts and debts receiving such relief in 2020 representing an approximate 20

²⁰⁸ See e.g., Bureau of Consumer Fin. Prot., *Statement on Supervisory and Enforcement Practices Regarding Electronic Credit Card Disclosures in Light of the COVID-19 Pandemic* (June 3, 2020), https://files.consumerfinance.gov/f/documents/cfpb_e-sign-credit-card_statement_2020-06.pdf; see also Bureau of Consumer Fin. Prot., *Open-End (not Home-Secured) Rules FAQs related to the COVID-19 Pandemic* (May 13, 2020), https://files.consumerfinance.gov/f/documents/cfpb_faqs_open-end-rules-covid-19_2020-05.pdf.

²⁰⁹ While payment deferrals were by far the largest overall component of overall relief efforts, that does not mean that other relief efforts were not impactful for consumers. See, e.g., Auriemma, "Among these who were offered and took a temporary interest rate reduction, 19% of them were able to increase the number [or] amount of credit card payments they could make." See *supra* note 205, at 8).

²¹⁰ The structure of the MMI survey entailed some potential double-counting (or triple-counting, etc.) of accounts if such accounts received more than one type of relief during a quarter. However, in practice this appears to have been limited, with the sum total of all individual relief types reported representing approximately 29 million accounts and \$78 billion in consumer debt, numbers not much greater than the total reported receiving any relief (a figure which counts each account only once). Therefore, it appears that most accounts only received one type of relief during a quarter, with most of the double-counting likely coming from accounts that received both payment deferrals and fee reversals or waivers.

percent and 50 percent increase over 2019, respectively. Accounts and debt enrolled in interest rate reduction relief or other forms of relief were mostly in line with 2019 levels. General purpose accounts represented roughly six-in-ten accounts granted a payment deferral in 2020, with retail accounts representing the balance, but general-purpose accounts represented nearly four-fifths of the consumer debt subject to a payment deferral in 2020.²¹¹

Based on those findings and subject to certain assumptions, the Bureau estimates that surveyed issuers' cardholders were able to forgo principal payments of anywhere from \$0.5 billion to \$1.5 billion against their credit card debts in 2020 due to these relief programs. While making similar inferences regarding the interest payments consumers were permitted to forgo is more challenging, it is plausible that the figure may be comparable to the above estimate for principal payments.^{212, 213} Especially when incorporating information about the relief utilized by cardholders of other issuers not within the MMI survey, it is likely that all consumer cardholders were able to forgo several billion dollars in otherwise-mandatory payments to credit card companies over the course of 2020. This relief came at a time when many consumers found themselves suddenly facing joblessness or reduced incomes while simultaneously at risk from COVID-19. The scale of this relief and the speed with which it was deployed therefore likely represented substantial benefits to the consumers who received it, allowing them to redeploy their limited and, likely in many cases, interrupted or diminished flow of income and other incoming funds towards other urgent needs.

Entries into payment deferral relief were spread fairly evenly across credit score tiers. In 2020, nearly four million prime accounts held by surveyed issuers received payment deferrals, compared to nearly three million superprime and near-prime accounts and closer to two million

²¹¹ Consumers carry higher balances on average on general purpose accounts. *See* Section 2.2.1.

²¹² The Bureau's MMI survey did not indicate how many consumers were presently revolving at the time they entered relief, which means Bureau data cannot determine what share of consumers who were permitted to skip a mandatory payment were skipping payments which included a finance charge as well as a principal payment.

²¹³ In most cases the interest nonetheless accrued, meaning the benefit to consumers was primarily one of preserved liquidity at a moment of crisis, not a discount on their costs of indebtedness. However, a not-insignificant share of payment deferrals were accompanied by interest waivers, meaning that in those cases issuers permanently forewent that income to the benefit of consumers.

subprime and deep subprime accounts.²¹⁴ However, accounts held by consumers with lower scores received payment deferrals at the highest rates of any credit score tier – nearly one-in-six subprime and deep subprime accounts received a payment deferral, compared to roughly one-in-ten among near-prime, one-in-twenty among prime, and just one-in-one-hundred among superprime accounts. As a share of balances, lower-score consumers showed an even greater relative impact from deferral programs. Rates of overall payment deferral peaked in the second quarter of 2020, with about 3 percent of consumer accounts (and nearly 7 percent of consumer credit card debt) receiving such a deferral in that period.

Available data suggest broad-based access to issuers’ relief programs generally, but it remains unclear how many consumers were unaware of or unable to take advantage of issuer relief programs. While the Bureau’s data provide limited further visibility into whether more-vulnerable consumers were able to fully and equally benefit from relief efforts, other evidence suggests that large numbers of such consumers were indeed able to access relief from their credit card issuers. Data from the August 2020 Survey of Consumer Financial Expectations found that 11 percent of those surveyed reported receiving some assistance from their credit card company.²¹⁵ Nonwhite cardholders were much more likely to receive credit card debt relief than white cardholders at 19.7 percent and 9.7 percent respectively.²¹⁶ Additionally, a greater share of consumers with incomes less than \$60 thousand per year received relief than those with higher incomes. Cardholders who faced an income drop in 2020 were also more likely to receive relief.²¹⁷

²¹⁴ Unsurprisingly given the higher average balances held by consumers with higher credit scores (see Section 2.2 above), this distribution was more skewed towards higher-score accounts when examined through the lens of consumer debt, with prime accounts representing nearly two-fifths of all debt receiving payment deferrals, nearly twice as much as deep subprime and subprime accounts combined.

²¹⁵ Beyond payment forbearance, this also includes fee and interest rate reductions and credit card limit increases. See Rajashri Chakrabarti, Jessica Lu, Joelle Scally, and Wilbert van der Klaauw, *Who Received Forbearance Relief?*, Federal Reserve Bank of New York (Aug. 2, 2021), <https://libertystreeteconomics.newyorkfed.org/2021/08/who-received-forbearance-relief/>.

²¹⁶ *Id.*

²¹⁷ *Id.*

Unlike the Great Recession, cardholders have largely avoided delinquency and charge off, as of the time of this report writing. As noted above in Section 2, overall rates of delinquency and charge-off *declined* significantly following the onset of COVID-19.²¹⁸ Several factors likely played a role in this development, such as extensive public aid to consumers (including Economic Impact Payments, increased unemployment insurance payments and expanded unemployment insurance coverage, and the Paycheck Protection Program), government-mandated forbearance on certain types of loans (including some mortgages and student loans), an increase in charitable giving,²¹⁹ state and federal moratoria and other limitations on tenant eviction, and other forbearance and relief voluntarily offered by financial institutions, as well as the recovery in employment and income over the latter half of 2020. However, much of that aid may not have made its way to struggling consumers with credit card debts until weeks or months after those consumers experienced a sudden and unexpected loss in income.²²⁰ As noted earlier, surveyed issuers made payment deferral widely and rapidly available after the onset of the pandemic. This may have served to tide many consumers over until they could access those supports and programs outlined above.

²¹⁸ See Sections 2.5 and 2.6.

²¹⁹ See, e.g., AFP Foundation for Philanthropy, *FEP Reports*, <https://afpglobal.org/fepreports> (last visited Aug. 18, 2021).

²²⁰ To take one such aid program as an example, the IRS reported distributing nearly 90 million Economic Impact Payments totaling over \$160 billion between the passage of the CARES Act on March 27, 2020 and April 17, 2020. See IRS, Treasury, *IRS deliver 89.5 million Economic Impact Payments in first three weeks, release state-by-state Economic Impact Payment figures* (Apr. 28, 2020), <https://www.irs.gov/newsroom/treasury-irs-deliver-89-point-5-million-economic-impact-payments-in-first-three-weeks-release-state-by-state-economic-impact-payment-figures>. Those figures reached approximately 127 million and \$216 billion, respectively, by May 8th, and 159 million and \$267 billion by June 3rd, 2020, with distribution continuing after that point as well. See IRS, Treasury, *IRS release latest state-by-state Economic Impact Payment figures* (May 8, 2020), <https://www.irs.gov/newsroom/treasury-irs-release-latest-state-by-state-economic-impact-payment-figures> and see also IRS, *159 million Economic Impact Payments processed; Low-income people and others who aren't required to file tax returns can quickly register for payment with IRS Non-Filers tool* (Jun, 3, 2020), <https://www.irs.gov/newsroom/159-million-economic-impact-payments-processed-low-income-people-and-others-who-arent-required-to-file-tax-returns-can-quickly-register-for-payment-with-irs-non-filers-tool>. As noted earlier in this subsection, the economic deterioration brought on by COVID-19 was extremely swift, with 20 million jobs vanishing by the end of April 2020. It is therefore plausible that at least some consumers with credit card debt who experienced a sudden loss of job or other income in late March or early April of 2020 may not have received their Economic Impact Payments until several months later, highlighting the potential impact to those consumers of being able to defer their credit card payments during that intervening period.

5.6 Card agreements

Pursuant to the CARD Act and the Bureau’s implementing regulations, the Bureau has collected agreements for open-end consumer credit card plans on a quarterly basis since 2011.²²¹ Recent technological investments in text analysis software allow the Bureau to present some initial findings from more than 10,000 cardholder agreements submitted by credit card issuers pursuant to those CARD Act requirements over the past five years. These documents from the CFPB’s Credit Card Agreement Database (“Database”) represent most agreements and their associated pricing addenda for general purpose cards based on submissions at year’s end from 2016 through 2020.²²² Previous Bureau reports utilized only a sample of documents from the Database to examine agreement length, readability, and late fee terms.²²³ This section is broader in scope than those prior efforts and examines agreement length and grade level alongside Spanish-language presence and arbitration-clause incidence, while also showing how credit card agreements change over time.

Relying on text analysis software rather than manual review poses new difficulties. If none of an issuer’s agreements for a given quarter could be successfully scanned by optical character recognition (OCR), then the institution is excluded from analysis. Some 11.8 percent of submissions were not possible to transform using OCR. On average each quarter, 21.8 percent of issuers had at least one agreement that did not scan, and 10.6 percent of institutions had zero agreements that successfully scanned. Due to the submission practice of several issuers where an agreement includes pricing information for multiple distinct credit card products, the Bureau cannot currently determine the share of products or consumers impacted by specific agreement provisions. Card issuers are also not required to submit any agreements to the Bureau if that issuer has fewer than 10,000 open card accounts as of the last business day of the calendar

²²¹ Prior to July 21, 2011, this responsibility belonged to the Board. The Bureau suspended this collection for a one-year period in order to pursue certain process improvements. 80 FR 21153 (Apr. 17, 2015); 12 C.F.R. § 1026.58(g).

²²² The fourth quarter of 2020 may include omissions due to regulatory flexibility due to the Bureau’s COVID-19 regulatory flexibility statement. *See supra* note 32.

²²³ The 2013 report reviewed a sample of cardholder agreements for large issuers to examine potential CARD Act impacts on agreement length and form, and the 2015 report expanded this analysis by relying on a bigger sample from different classes of issuer. In the 2019 report, the Bureau examined the late fee terms of credit card agreements from banks included in the Y-14+ panel.

quarter.²²⁴ Taken together, while these challenges may limit the representativeness of the results, the Bureau believes the volume of agreements analyzed is sufficient to reliably draw certain conclusions from these data, presented herein.

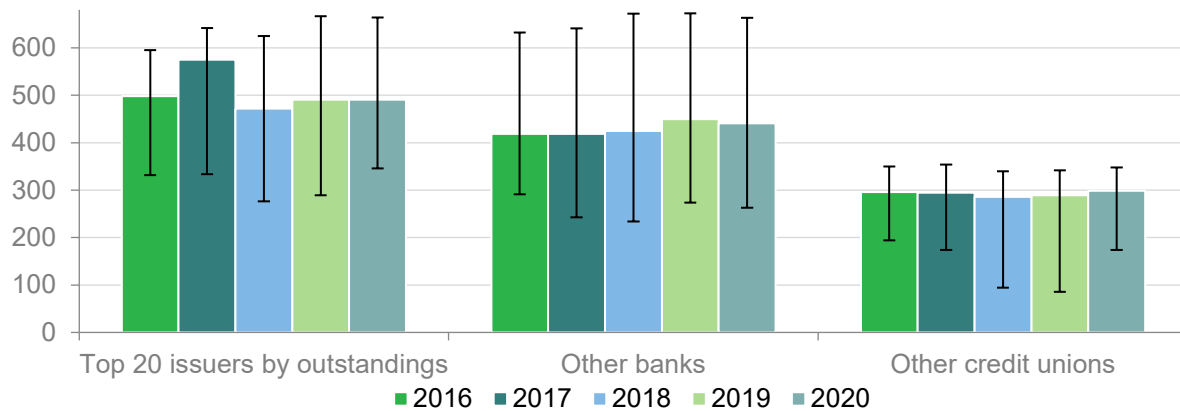
5.6.1 Readability

The decisions issuers make when drafting cardholder agreements determine which consumers can be expected to be able to read and understand their credit card's terms and conditions. Three barriers to comprehension of cardholder agreements explored in this section include length, complexity, and English proficiency.

Larger issuers tend to offer longer agreements, as measured by the number of sentences in each document. Figure 18 depicts the length of agreements for different issuer groups over time. The bars illustrate the median number of sentences per document for each credit card issuer group. The black vertical lines for each bar show the 25th and 75th percentiles. While the median agreement length for smaller banks has increased slightly since 2016, its variance has as well. In contrast, credit unions outside the top 20 issuers by outstandings tend to have shorter cardholder agreements than any other group – the 75th percentile sentence length for credit unions is below the median value of all other institutions over the past five years.

²²⁴ 12 CFR § 1026.58(c)(5).

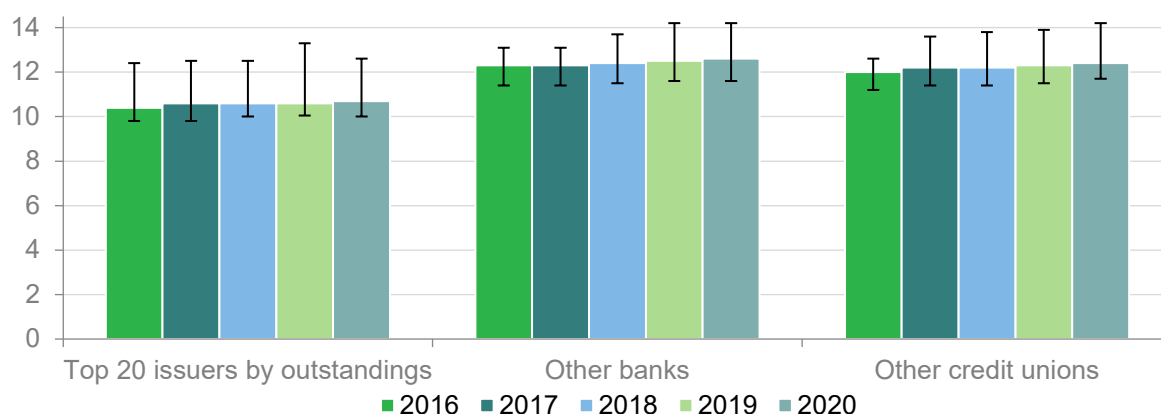
Figure 18: MEDIAN SENTENCE COUNT OF GENERAL PURPOSE CARDHOLDER AGREEMENTS



While the top issuers' agreements may be longer on average, they are also easier to read. Figure 19 shows the median Flesch-Kincaid grade level by issuer class. This metric approximates complexity and calculates expected reading level by considering the average number of words per sentence and syllables per word in a document. The median Flesch-Kincaid grade level of 12.4 in the 2020 data indicates fewer than half of all agreements should be readable by a high-school graduate. This has steadily increased from a value of 12.0 in 2016. However, agreements in the top quartile for smaller banks and credit unions now equal or exceed the expected reading level of cardholders who have completed two years of post-secondary education. Previous research found that about half of adults could not read a book at an eighth-grade level; this analysis suggests that most Americans would find the median agreement above their reading level.²²⁵

²²⁵ These estimates correspond with findings from previous reports, *see generally supra* note 6. *See also* Institute of Education Sciences National Center for Educational Statistics, *The Health Literacy of America's Adults*, U.S. Department of Education (Sep. 2006), <https://nces.ed.gov/pubs2006/2006483.pdf>.

Figure 19: MEDIAN FLESCH-KINCAID GRADE LEVEL OF GENERAL PURPOSE CARDHOLDER AGREEMENTS



As over one-fifth of the U.S. population over the age of five speaks a language other than English at home, and more than 26 million people have limited English proficiency (“LEP”), a wide swath of consumers may face difficulties understanding credit card terms and conditions if agreements are only available in English.²²⁶ Since Spanish speakers constitute the largest share of the LEP population, the analysis focused specifically on the availability of agreements in Spanish.

While not required by regulation, about a dozen issuers submitted Spanish-language agreements to the database in 2020. Half of these are banks located in Puerto Rico, two are smaller institutions located in California and New York, and the remainder are major issuers. To explore the larger question of the prevalence of Spanish-translated agreements, the Bureau also examined agreements published on the top 20 issuers’ public websites and found that less than one-third provided easily-accessible Spanish translations of cardholder agreements. This limited analysis does not consider other methods through which institutions may service the LEP population such as interpretation services or Spanish-speaking customer service lines. Additionally, the rise of digital servicing and mobile banking has led to greater access to credit

²²⁶Chinese, Vietnamese, Korean, and Tagalog speakers sequentially represent the largest LEP populations in the United States after Spanish. *See* 82 FR 53482.

card services for the LEP population over the past decade as issuers increasingly include functionality that allows consumers to change their language preferences.²²⁷

5.6.2 Arbitration clauses

The use of arbitration clauses in general purpose agreements offered by credit card issuers appears to have increased over the past five years, as measured by the percentage of institutions who included at least one reference to arbitration in their submissions to the database at year's end. As shown in Figure 20, large issuers are more likely than smaller banks and credit unions to include arbitration clauses in cardholder agreements, but credit unions are increasingly adopting this practice. A previous manual review of 423 credit card contracts submitted to the Database in 2013 found that 15.8 percent of issuers included arbitration clauses in their credit card contracts.²²⁸ As of 2013, 75 percent of the 20 largest bank issuers used arbitration clauses while only 3.3 percent of credit unions did so.²²⁹ These values are nearly identical to 2016 levels in a sample of agreements from 535 issuers. Since then, the percentage of the top 20 largest issuers that include arbitration clauses in at least one of their contracts has remained largely static while the percentage of credit unions with at least one arbitration clause at year's end has

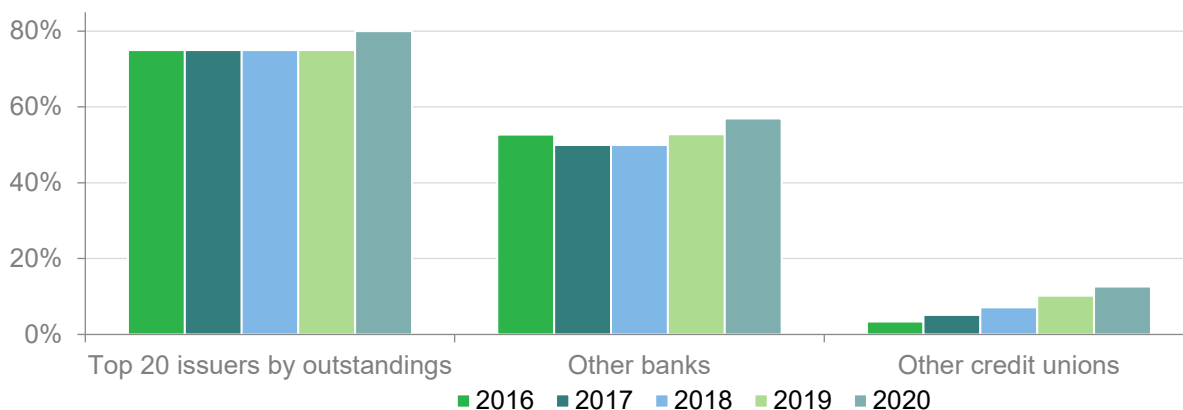
²²⁷ See Payments Dive, *Us Bank adds functionality to mobile app, including Spanish language and account insights* (Aug. 22, 2019), <https://www.paymentsdive.com/ex/mpt/news/us-bank-adds-functionality-to-mobile-app-including-spanish-language-and-account-insights/>; Hilary Burns, *Bank of America redesigns mobile app, adds Spanish-language option*, Charlotte Business Journal (July 21, 2016), <https://www.bizjournals.com/charlotte/news/2016/07/21/bank-of-america-redesigns-mobile-app-adds-spanish.html>; Chase, Press Release, *Chase Launches New Spanish Online Banking Experience* (Oct. 4, 2012), <https://www.businesswire.com/news/home/20121004005714/en/Chase-Launches-New-Spanish-Online-Banking-Experience>.

²²⁸ Bureau of Consumer Fin. Prot., *Arbitration Study*, at 10 (Mar. 2015), https://files.consumerfinance.gov/f/201503_cfpb_arbitration-study-report-to-congress-2015.pdf.

²²⁹ *Id.*

tripled.²³⁰ While some institutions allow consumers to opt-out of arbitration provisions within a stated period after signing an agreement, the process to do so may be burdensome.²³¹

Figure 20: ARBITRATION CLAUSE INCIDENCE IN GENERAL PURPOSE CARDHOLDER AGREEMENTS



²³⁰ The change in the percentage of top 20 issuers using arbitration clauses in 2020 is due to the practices of one issuer. See Emily Flitter, *JPMorgan Chase Seeks to Prohibit Card Customers From Suing*, N.Y. Times (June 4, 2019), <https://www.nytimes.com/2019/06/04/business/jpmorgan-chase-credit-card-arbitration.html>.

²³¹ The communication expressing this intent to reject an arbitration clause often must be printed and physically mailed to the company, although there are reports of at least one issuer allowing consumers to opt-out via text message. See Barbar Krasnoff, *You should opt out of the Apple Card's arbitration clause—here's how*, The Verge (Aug. 20, 2019), <https://www.theverge.com/2019/8/20/20813800/apple-card-pay-arbitration-clause-goldman-sachs-credit-how-to-opt-out>.

6. Credit card debt collection

As part of its review of the practices of credit card issuers, the Bureau surveyed several large issuers to better understand practices and trends in credit card debt collection. These same large credit card issuers were also surveyed for the Bureau's reports published in 2015, 2017, and 2019. Findings from the Bureau's current survey (the MMI dataset) are reported in this section.

First, this section provides background information on the overall market for consumer debt collection. Second, this section reviews issuer policies and practices with respect to resolving delinquent debt prior to charge-off, including communication practices, use of first-party and third-party collectors, and loss mitigation programs. Third, this section reports on the recovery of debt following charge-off, including measures of recovery of charged-off debt through various channels, such as third-party agency collections, debt sale, and litigation. Finally, this section highlights COVID-19-pandemic-related developments in credit card debt collections practices.

6.1 Debt collection markets

After several years of growth, consumer debt surpassed its 2008 peak in 2017, rising to a new high of \$14.3 trillion in the first quarter of 2020, according to the New York Federal Reserve.²³² Non-housing debt, which comprises most of the debt in third-party collections, rose to a new high of \$4.2 trillion in the first quarter of 2020. During the pandemic, non-housing debt saw a record decline of \$86 billion in the second quarter of 2020, followed by \$15 billion and \$37

²³² These consumer debt figures are in nominal dollars and are unadjusted for inflation and population growth, which have both increased over time. See Fed. Rsv. Bank of New York, *Quarterly Report on Household Debt and Credit 2020: Q4* (Nov. 2020), https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/hhdc_2020q4.pdf.

billion increases in the third and fourth quarters of 2020 and an \$18 billion decline in the first quarter of 2021, respectively.²³³ This change was primarily driven by a record \$76 billion decline in credit card debt during the second quarter.²³⁴

DEBT COLLECTION INDUSTRY SIZE

Most large credit card issuers use their own employees and resources to collect some portion of their delinquent debts. Many creditors also engage third parties to collect debts on their behalf or sell uncollected debts to debt buyers who then collect the debts themselves or through a third party. Third-party debt collection industry revenue has declined in recent years, decreasing from an estimated \$14.1 billion in 2013 to \$12.7 billion in 2019.²³⁵ After years of decline, employment in the third-party debt collection industry has leveled off since 2017 to roughly 141,000 US workers as of 2019.²³⁶ The industry continues to consolidate, with the number of debt collection enterprises declining by 30 percent and the number of debt collection establishments declining by 28 percent from 2011-2019, as can be seen in Figure 1.²³⁷

²³³ See Section 2.2 for further discussion of repayment trends.

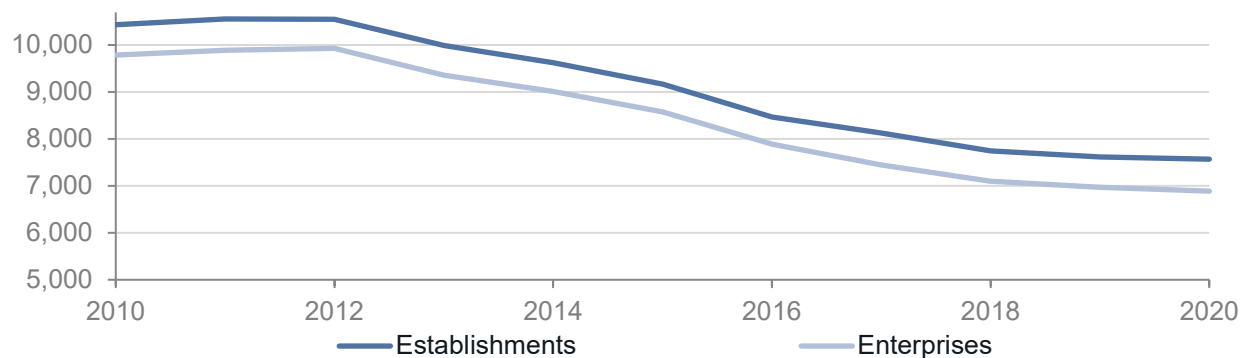
²³⁴ Auto loan debt, student loan debt, and other types of non-housing debt have seen relatively modest changes during 2020.

²³⁵ See Gabriel Schulman, *Debt Collection Agencies in the US*, IBISWorld (Dec. 2020).

²³⁶ *Id.*

²³⁷ *Id.*

Figure 1: DEBT COLLECTION INDUSTRY SHRINKAGE BY ENTERPRISES AND ESTABLISHMENTS, 2010-2020 (IBISWORLD)²³⁸



TYPES OF CONSUMER DEBT

Debt collection affects millions of Americans. About 26 percent of consumers have a third-party collection tradeline furnished to their credit report, according to the Bureau’s Consumer Credit Panel (CCP). A Bureau survey on consumers’ experiences with debt collection found that about one-in-three consumers with a credit file — over 70 million consumers — indicated that they had been contacted by at least one creditor or collector trying to collect one or more debts during the year prior to the survey.²³⁹ Debt collection efforts include phone calls, letters, emails, filing lawsuits, and other methods to collect alleged debts from consumers.

Most consumers with collection tradelines on their credit files have medical, telecommunications, retail, or banking and financial services debt.²⁴⁰ In 2018, healthcare debt made up 58 percent of third-party collections tradelines in the Bureau’s CCP.²⁴¹ However,

²³⁸ “Enterprises” refers to the number of debt collection businesses in operation. Each enterprise may have multiple locations; thus, “establishments” is a larger figure.

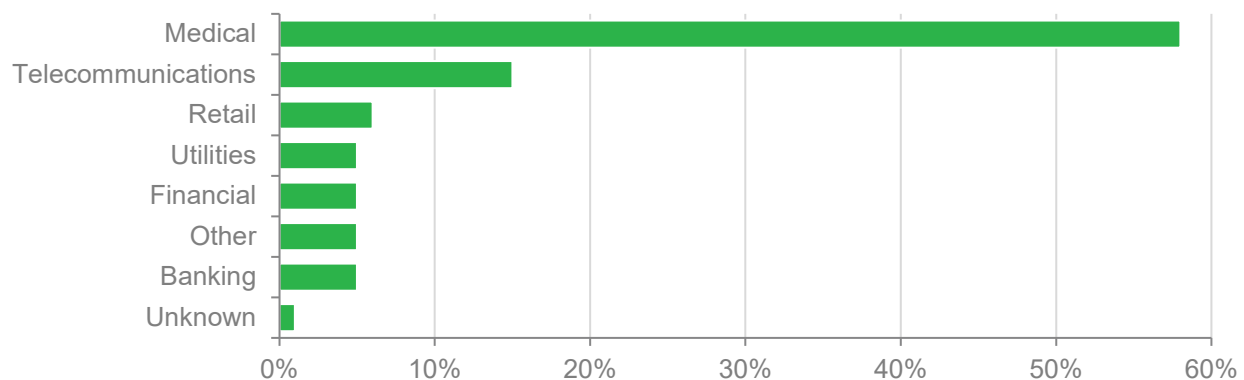
²³⁹ Bureau of Consumer Fin. Prot., *Consumer Experiences with Debt Collections: Findings from the CFPB’s Survey of Consumer Views on Debt* (Jan. 2017), https://www.consumerfinance.gov/documents/2251/201701_cfpb_Debt-Collection-Survey-Report.pdf.

²⁴⁰ Bureau of Consumer Fin. Prot., *Consumer Financial Protection Bureau Releases Report on Third-Party Debt Collections* (July 2019), <https://www.consumerfinance.gov/about-us/newsroom/bureau-releases-report-third-party-debt-collections/>.

²⁴¹ *Id.*

several debt types may be underreported because they are furnished by the creditor and hence do not appear as collections tradelines. In particular, credit card debt likely accounts for a much larger share of accounts in third-party collections than the below figure suggests.

Figure 2: DISTRIBUTION OF ORIGINAL CREDITOR TYPE AMONG THIRD-PARTY COLLECTIONS TRADELINES IN Q2 2018 (CCP)²⁴²



A large majority of the industry's revenue is generated by firms contracting with creditors and debt buyers to collect their debts on a contingency fee basis. In contingency fee collections, the creditor and the collector each receive a share of the amount collected. A small share of collectors employs fixed fee collections.

The three largest debt buyers' share of total revenue increased by 27 percent from 2015 to 2019.²⁴³ A significant source of industry revenue comes from debt buyers, who purchase accounts (usually contained in portfolios) from the original creditor or other debt buyers and then generally seek to collect on the debt, either by themselves or through third-party debt collectors. Whereas third-party contingency collectors receive only a percentage share of recoveries, debt buyers purchase the debt at a fraction of the account balance, and their revenue consists of the total amount recovered. If debt buyers use third-party debt collectors to recover for them, the debt buyers typically pay a share of the amount collected to the third-party debt collectors. According to the CCP, debt buyers furnished 12.5 percent of third-party collections

²⁴² *Id.*

²⁴³ See Schulman, *supra* note 235.

tradelines. The Bureau has found that portfolios of charged-off debt may also be available to purchase through online debt marketplaces.²⁴⁴ During much of 2020, participants in the debt collection industry reported an increase in consumer contacts and payments. Some states instituted pandemic measures that impacted the debt collection industry and consumers, such as include prohibitions on new wage garnishments or bank attachments, and requirements that consumers be offered the option to defer scheduled payments.²⁴⁵

6.2 Collections prior to charge-off

This section reviews surveyed issuers' policies, procedures, and practices with respect to resolving delinquent debt prior to accounts reaching 180 days of delinquency. In response to the Bureau's survey, issuers provided information regarding restrictions on contacting consumers, use of electronic communications (*e.g.*, email or SMS), technology and software used as part of their collection strategies, use of first- and third-party collectors, and loss mitigation practices for collection activities prior to charge-off.²⁴⁶

All respondents reported conducting some pre-charge-off collection activities in-house. An issuer's in-house collection efforts may include such methods as calling, texts, emails, letters, web chat, and social media. Most of the issuers also supplemented the activities of their in-house agents with first-party collectors: outside collectors who work under the name and the direction of the creditor when collecting on delinquent debt. An issuer may also turn to a third-party agency to collect in the agency's own name and not in the name of the original creditor. More than half of the surveyed issuers worked with third-party collectors prior to charge-off.

²⁴⁴ Bureau of Consumer Fin. Prot., *Market Snapshot: Online Debt Sales* (Jan. 2017), https://www.consumerfinance.gov/documents/2249/201701_cfpb_Online-Debt-Sales-Report.pdf/.

²⁴⁵ Bureau of Consumer Fin. Prot., *Supervisory Highlights COVID-19 Prioritized Assessments Special Edition, Issue 23* (Jan. 2021), https://files.consumerfinance.gov/f/documents/cfpb_supervisory-highlights_issue-23_2021-01.pdf.

²⁴⁶ Most issuers use proprietary case management software for their internal collections. Issuers rely on a small number of vendors for their dialer software and hardware, mainly Avaya and Aspect dialers.

6.2.1 Pre-charge-off communications

Issuers reported having policies in place that specify the frequency with which their collectors can call, leave voicemails, email, text, and otherwise contact a consumer regarding a delinquent account. Table 1 below provides the ranges of issuers' policy limits on consumer contact via various media and actual average attempts for each of those media. Issuers reported that their call intensity strategies depended on an account's stage of delinquency and risk level, among other factors.

TABLE 1: RANGES OF CONSUMER CONTACT POLICY LIMITS AND ACTUAL AVERAGE ATTEMPTS IN 2020 (MMI)

Policy limit or actual attempts	Phone call attempts per day	Phone calls after right party contact	Voicemails per day	Postal letters per month
Policy limit	3 to 11	No additional calls on contact date	1 to 2	1 to 4
Actual average attempts ²⁴⁷	1.25 to 2.99	Zero per account on contact date	0.04 to 0.90	0.23 to 1.64

Issuers reported far fewer contact attempts on average per account than allowed by policies. All surveyed issuers reported that their policies included daily caps per account on phone calls. Daily contact attempt policy limits ranged from three calls to 11 calls per account. Noticeably, the ends of this range increased from their previous values of two and nine, respectively, as discussed in the Bureau's 2019 Report.²⁴⁸ A minority of respondents also set a weekly cap on telephone call attempts at 21 to 77 calls per week per account, and a minority set customer-level caps, which ranged from six to nine attempts per day. While most issuers surveyed allowed no more than one voicemail per account per day, a small minority reported allowing two voicemails

²⁴⁷ Average attempts via the telephone and voicemail channels were defined as the number of calls made or voicemails left to all accounts that were called divided by the number of unique delinquent accounts that were called in a given period of time. For postal letters sent, average attempts by letter was defined as the number of letters sent to delinquent accounts divided by the number of unique delinquent accounts. The time frames were daily, weekly, or monthly, depending on common practices in that channel.

²⁴⁸ See 2019 Report, *supra* note 6, at 314.

per account per day. This differs from the findings in the Bureau’s 2019 Report, at which time all respondents reported a policy limit of one voicemail per account per day.²⁴⁹ The actual average number of voicemails per account per day ranged from 0.04 to 0.90 in 2020. Issuers averaged between 1.3 and 3.0 contact attempts via telephone per day. Even though policy maximums increased since the 2019 report, actual average attempts decreased from the range in the 2019 report of 1.4 to 3.5. However, no issuer allowed calls to continue within a given day once “right party contact” has been made. Right party contact occurs when the issuer or collector can reach and speak with the consumer whom the issuer believes is responsible for the debt via telephone. The majority of respondents reported that they did not track in-house and first-party contact attempts separately for pre-charge-off collections. Quarterly right party contact rates in 2020 averaged between 0.6 percent and 8.1 percent for in-house and first-party collections and between 0.5 percent and 7.0 percent for third-party collections.²⁵⁰ Issuers who placed pre-charge-off accounts with third-party collection agencies stated that they often assign “high risk,” late-stage delinquent accounts to third-party collectors, reducing right-party contact rates.

All the issuers surveyed also reported using email as part of their credit card collection strategy, but the degree to which they used it varied widely. The reported percentage of email-eligible accounts (defined as accounts for which the consumer provided a valid email address and agreed to be contacted at that address) ranged from 71.5 to 92.6 percent. The monthly average percent of email-eligible accounts increased from 68.3 percent in 2018 to 84.1 percent in 2020. Roughly two-thirds of accounts with eligible email identification received an email related to debt collection.²⁵¹ Therefore, the percent of all pre-charge off delinquent accounts that received an email increased from 45.8 percent in 2018 to 52.8 percent, implying greater adoption of the email channel by card issuers. However, survey respondents reported that on average, only 31.9 percent of accounts that received email clicked open their emails.²⁵² This low click-open rate

²⁴⁹ *Id.*

²⁵⁰ The survey defined “right party contact rate” as the number of times live contact with the primary or joint account holder or power of attorney of the debt was made during the quarter divided by the total number of outbound dialer attempts made to delinquent accounts in the quarter.

²⁵¹ This figure is similar to the figure in the 2019 Report, *supra* note 6.

²⁵² The click-open rate was not tracked in the prior report.

could be attributed to consumer concerns about email spam. An average of less than one percent of emails bounced back, potentially indicating that issuers generally have valid emails on their files. Many issuers reported using email proactively for account servicing (*e.g.*, sending reminders about a pending withdrawal from a consumer’s bank account for a recurring payment) as part of their pre-charge-off communication strategy. Fewer issuers stated that they used email only reactively, such as when a consumer initiated a conversation online or requested that documents be sent by email. Issuers who reported using email typically restricted the number of emails that could be sent to 2 or 3 emails per week.

TABLE 2: EMAIL, TEXT, AND WEB CHAT ELIGIBILITY AND ENGAGEMENT RATES, MONTHLY AVERAGES 2020 (MMI)

	Email	Text	Web chat
Percent of accounts eligible for the channel ²⁵³	84.1%	60.3%	Not applicable
Percent of eligible accounts engaged ²⁵⁴	62.8%	36.6%	1.40%
Click-open rate ²⁵⁵	31.9%	Not applicable	Not applicable
Bounce-back rate ²⁵⁶	0.9%	Not applicable	Not applicable

The share of issuers using text messages as part of their credit card collection strategy has continued to increase since the Bureau began tracking this figure in its 2017 Report. While in the 2019 Report, less than two-thirds of those surveyed said they sent mobile text messages to

²⁵³ Defined as the total number of unique delinquent accounts with a consented email address or text-consented cellphone number in a month divided by the total number of unique delinquent accounts in that same month.

²⁵⁴ Defined as the number of unique delinquent accounts that were emailed in a month divided by the total number of unique delinquent accounts with a consented email address in that same month.

²⁵⁵ Defined as the number of emails sent to delinquent accounts that were clicked open in a month divided by the total number of emails sent to delinquent accounts in that same month.

²⁵⁶ Defined as the number of emails sent to delinquent accounts returned undeliverable in a month divided by total number of emails sent to delinquent accounts in that same month.

communicate with delinquent consumers, almost all respondents said they used text messages during the latest survey period. Two-thirds of issuers surveyed also reported engaging with delinquent consumers via “web chat,” where a consumer can click a chat button on the issuer’s webpage to communicate about their debt with a collections agent, which remained stable from the last report. In addition to account management, most issuers allowed consumers to handle settlement negotiations and payment arrangements via web chat. Some issuers restricted the use of web chat services to pre-charge off collections only. Surprisingly, the percent of eligible accounts engaged via web chat declined since the 2019 report from 2.5 percent to 1.4 percent, contrary to industry-wide trends towards greater adoption of digital channels. Most issuers did not track data on the use of electronic channels (email, text, and web chat) by their third-party collectors. All respondents reported not utilizing social media communication as a collection tool for obtaining information about or communicating with consumers.

COLLECTING FROM LIMITED ENGLISH PROFICIENCY (LEP) CUSTOMERS

All surveyed credit card issuers had the capacity, within their collections function, to accommodate consumers with Limited English Proficiency or consumers that express the desire to communicate in a language other than English. A minority of respondents indicated providing web chat services in Spanish. Most issuers had a unit of bilingual collectors to communicate with consumers with a Spanish-language preference. For communicating with consumers with preferences for other foreign languages, all issuers leveraged translation services. In cases where the third-party collectors cannot provide such services, they are required to return the accounts back to the card issuer. For the two-thirds of surveyed issuers that tracked consumer language preferences, the share of pre-charge-off delinquent balances owed by consumers that expressed a preference for a language other than English averaged 3.7 percent in 2020, while it varied from a low of 2.2 percent to a high of 7.6 percent among issuers.

PRE-DELINQUENT COLLECTIONS

While only some issuers reported having pre-delinquent collections strategies in the 2019 survey, almost all issuers reported having such strategies in place in the current survey. The pre-delinquent collections strategies involved pursuing collections on accounts that were current and past the payment due date (*i.e.*, had not become delinquent yet). These issuers focused on subsets of these accounts that were tagged as high-risk, based on factors such as risk score, high balance, over-limit condition, and past delinquency. While most issuers pursue softer contact strategies on such accounts, such as email and text reminders, a few respondents did not differentiate these accounts from other pre-charge off delinquent accounts in collections.

6.2.2 First-party collections

Pre-charge off, two-thirds of issuers used first-party collectors to support in-house collection activities. Those issuers typically reported allocating work randomly between in-house and first-party collectors based on collector availability, requiring that first-party collectors place outbound calls, handle inbound calls, and document their work using issuers' own case management system and dialer technology. Issuers reported that they generally do not track pre-charge-off account placements separately between in-house and first-party collections. Most issuers that used first-party collectors noted that they do not place any specific sub-segments of accounts with first-party agencies. However, a minority of respondents allocated higher-risk accounts to first-party collectors.

First-party collection companies were typically paid on a full-time employee ("FTE") basis, unlike the contingency fee model used to compensate third-party collectors. On average, issuers reported keeping 96 percent of pre-charge-off debt balances to be worked in-house and by first-party collectors, with the remaining 4 percent placed with third-party collectors.²⁵⁷ The number of unique first-party agencies used across issuers remained relatively stable year-over-year between 2019 and 2020, with 18 unique agencies in 2019 and 17 in 2020. These figures marked a significant increase from the 11 unique agencies reported for 2018. Banks that used first-party agencies reported employing four unique first-party agencies on average in 2020, with a low of one to a high of six. The services of one particular agency were used by half of the respondents.

6.2.3 Third-party contingency collections

More than half of the surveyed issuers worked with third-party contingency collectors prior to charge-off, which remained the same compared to the Bureau's 2019 Report.²⁵⁸ All surveyed issuers reported using a combined total of 62 unique third-party agencies in 2019 and 55 in 2020. For issuers that used third-party collection agencies prior to charge-off, the average share of pre-charge-off debt placed with third-party collectors remained flat at 4 percent between

²⁵⁷ These figures represent the percentage of pre-charge off balances that each issuer retained for in-house and first-party collections and placed with third-party collectors, averaged across all issuers.

²⁵⁸ See 2019 Report, *supra* note 6.

2019 and 2020. The share of pre-charge off third-party placements declined significantly from the 11 percent reported in 2018. A minority of respondents placed specialized account types with third-party collectors, such as debt consolidation, deceased, and pending bankruptcy accounts. Issuers that used third-party agencies reported employing 12 unique third-party agencies on average in 2020, with a low of five to a high of 20. The services of five particular agencies were used by half of the respondents in 2020.

AGENCY COMPENSATION

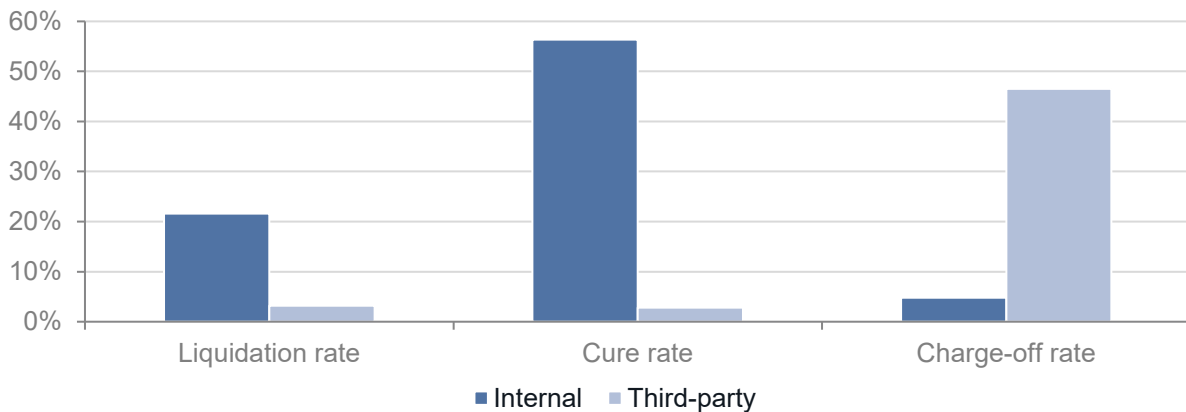
Most issuers that contracted with third-party agencies for pre-charge-off collections paid a contingency fee that was a percentage of the amount collected. These fees ranged from 9.5 percent to 23.0 percent, which is likely attributable to differences in the risk profile of the accounts being placed with third-party collectors. The average third-party pre-charge off contingency fee was 15.7 percent in 2020, which compares to 15.3 percent in 2018. Generally, highly collectible accounts command lower contingency fees compared to those perceived as being more difficult to collect. For instance, some respondents placed specialized account types with third-party collectors, such as debt consolidation, deceased, and pending bankruptcy accounts, thereby impacting the contingency fees offered. Most issuers also provided additional incentives to third-party collectors based on their performance relative to a set financial target or to the performance of other collection agencies.

6.2.4 Performance

Prior to charge-off, issuers generally kept debts that were in an early stage of delinquency or were assessed as having a relatively high likelihood of recovery for in-house collections. Issuers generally placed accounts in the later stages of delinquency, closed accounts, and accounts where no contact had been made with the primary account owner for an extended period of time. Accounts placed with third-party collectors had an average balance 12 percent higher and a FICO score 12 percent lower than accounts kept in-house. Respondents also noted that they may assign accounts with special circumstances to third-party collection agencies with specialized collections expertise in the relevant area, such as those where the consumer was engaged with debt settlement companies, the account holder was deceased, or bankruptcy applications were pending. As a result, in-house collections generally had higher liquidation and cure rates but lower charge-off-rates, relative to third-party collections, as seen in Figure 3

below.²⁵⁹ These performance indicators have all remained relatively stable year-over-year since 2017.

Figure 3: AVERAGE QUARTERLY PERFORMANCE FOR INTERNAL AND THIRD-PARTY COLLECTIONS, 2020 (MMI)



6.2.5 Loss mitigation and re-aging practices

Credit card issuers used re-aging and various loss mitigation practices, including short- and long-term forbearance programs, debt management plans offered by consumer credit counseling agencies, and debt settlement. Issuers reported that they generally structured their loss mitigation practices conforming to guidance issued by the Federal Financial Institutions

²⁵⁹ The quarterly liquidation rate is defined as total pre-charge-off delinquent dollars collected in a given quarter as a percent of total pre-charge off delinquent dollars in that same quarter. Cure rate is defined as the percent of pre-charge off delinquent dollars in a given quarter that were repaid to current status by the end of the same quarter. Charge-off rate is defined as the percent of pre-charge off delinquent dollars that charged off (representing contractual charge-offs as well as accounts charged off for bankruptcy, notice of decease, etc.) as of the end of the same quarter. These quarterly rates are averaged across all issuers and weighted by issuer's share of total pre-charge-off delinquent dollars. Finally, the 2018 quarterly average was calculated across all four quarters.

Examination Council (“FFIEC”) and the federal banking agencies on the use of these collections tools.²⁶⁰

RE-AGING

Re-aging returns a delinquent, open-end credit card account to current status without collecting the total amount of principal, interest, and fees that are contractually due. Issuers’ policies allow re-aging of open-end accounts when a borrower makes at least three consecutive minimum monthly payments or an equivalent amount in a lump-sum payment. The number of re-ages on an account is limited to one in 12 months and two in five years. An account that is enrolled in a long-term internal forbearance or debt management program may be eligible for a third re-age within the five-year period. All surveyed issuers’ re-aging policies aligned with the guidance offered by the FFIEC and federal banking agencies.²⁶¹

According to the current survey, re-aged balances as a percentage of total delinquent dollars have continued to remain below two percent for each quarter since 2017,²⁶² with the average at 1.6 percent in 2020. However, there was considerable variation among the card issuers in terms of the share of pre-charge-off balances that were re-aged: the 2020 quarterly average ranged from as low as 0.4 percent to a maximum of 5.9 percent. This wide range may reflect variation in each issuer’s underlying portfolio composition.

FORBEARANCE PROGRAMS

Forbearance programs are designed to assist borrowers experiencing financial hardship. These programs can be “temporary” or “short-term,” aimed at assisting borrowers experiencing hardships expected to last 12 or fewer months, or “long-term,” intended to aid borrowers experiencing continued hardships lasting longer than 12 months. Issuers reported that their

²⁶⁰ See generally FFIEC, *Uniform Retail Credit Classification and Account Management Policy: Policy Implementation*, 65 FR 36903 (June 12, 2000); Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of Thrift Supervision, *Credit Card Lending: Account Management and Loss Allowance Guidance*, OCC Bulletin 2003-1 (Jan. 8, 2003), <https://occ.gov/news-issuances/bulletins/2003/bulletin-2003-1.html>.

²⁶¹ *Id.*

²⁶² See 2017 Report, *supra* note 6, at 318.

long-term programs generally require borrowers to repay their credit card debt within 60 months. In order to meet this amortization timeframe, creditors may need to substantially reduce interest rates, eliminate fees, and lower monthly required payment amount. All issuers surveyed generally reported assessing borrower's willingness and ability to pay as per the terms of the forbearance program including documenting the reason, severity, and duration of the cardholder's financial difficulty. All surveyed issuers' forbearance policies aligned with the guidance offered by the FFIEC and federal banking agencies.²⁶³

More than half of the survey respondents did not offer short-term forbearance programs over the last several years. Instead, these issuers generally offered long-term programs as an alternative regardless if borrower's hardship is short term or long term in nature. However, all issuers reported accommodating COVID-19 related hardship assistance requests by offering various temporary short-term assistances such as skip-a-pay. Most issuers also reported that they do not allow their third-party collection agencies to offer and enroll borrowers in hardship programs, due to the complexity of managing these programs.

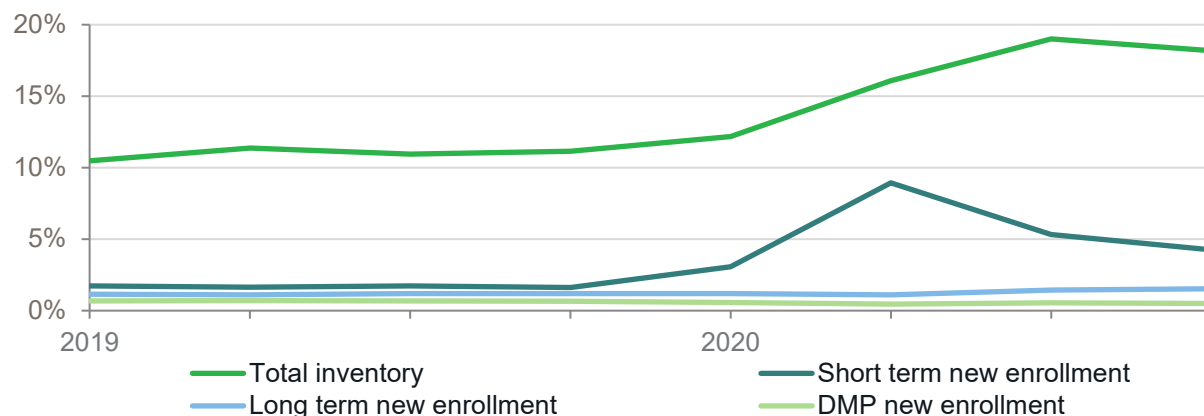
CREDIT COUNSELING AGENCIES

Issuers work with consumer credit counseling agencies ("CCAs") to help borrowers resolve their financial hardships, as an additional component of their loss mitigation efforts. CCAs work with borrowers to develop a budget and a debt management plan ("DMP") for all the consumer's enrolled debts, which may be owed to multiple creditors. These plans generally involve paying creditors a fixed payment amount at a reduced interest rate.

Most respondents reported funding CCAs through a "fair share" payment, which is a payment based on a percentage of the amount the consumer has paid back to the issuer. However, a few of the respondents fund their CCAs through grant funding. Several issuers reported working with CCAs on debt relief pilot programs such as "less-than-full-balance programs" and DMPs with extended amortization that extend beyond the traditional DMP.

²⁶³ *Id.*

Figure 4: QUARTERLY FORBEARANCE NEW ENROLLMENT AND ACTIVE INVENTORY AS A SHARE OF DELINQUENT BALANCES (MMI)²⁶⁴



All issuers reported offering one or more types of forbearance or debt management programs with varying interest rates, monthly fixed payment amounts, and amortization periods. The total new enrollment rate, measured as a percent of pre-charge-off delinquent dollars newly enrolled in various forbearance programs and DMPs, increased by 76 percent from 2019 to 2020. Most of this increase came from the significant increase in short-term program enrollment in the second quarter of 2020 as many issuers responded to COVID-19. New enrollment in short-term programs jumped by 240 percent in 2020 compared to 2019: 1.7 percent in 2019 and 5.8 percent in 2020. In contrast, the long-term internal program enrollment rate registered only a modest 14 percent increase during the same period. Interestingly, the enrollment rate in DMPs declined by 20 percent in 2020. The average quarterly new enrollment rate among individual issuers ranged widely from a low of 0.5 percent to a high of 14.2 percent in 2020.

While the total forbearance inventory increased moderately in 2018 and 2019, it increased by almost 50 percent in 2020 compared to 2019 mostly due to the significant increase in short-term program enrollment in 2020 in response to the pandemic.

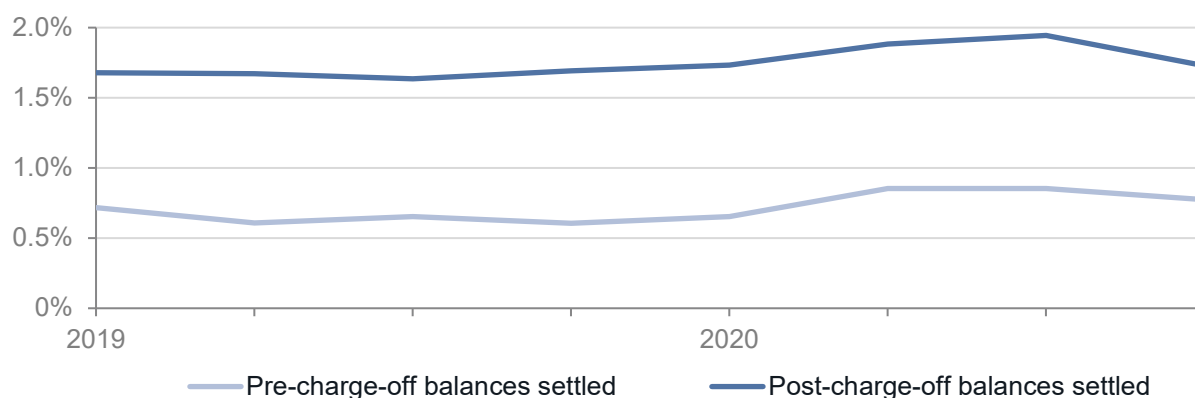
DEBT SETTLEMENT

Debt settlements occur when an issuer agrees to accept less than the full balance owed by the borrower as full satisfaction of the balance owed. Such settlements can occur either pre- or -

²⁶⁴ “Inventory” refers to total balances for all accounts that are in active status in a forbearance program as of the end of the quarter.

post-charge off. Most issuers have policies in place to proactively offer settlements directly to consumers who meet the standardized risk criteria set by the creditor. These offers are extended via in-house operations or through third parties. The settlement enrollment rate, the percent of balances enrolled in settlement, increased from 2019 to 2020 by 21 percent and 9 percent for pre- and post-charge off, respectively, with most of the increases occurring in the second and third quarters of 2020. These increases align with reported gains in consumer liquidity from various economic stimulus payments and related debt pay-down by consumers during the pandemic. The settlement enrollment rate was higher for post-charge off balances (1.8 percent in 2020) than pre-charge off balances (0.8 percent in 2020). Among surveyed issuers, the quarterly pre-charge-off settlement enrollment rate ranged from 0.1 percent to 1.6 percent, and quarterly post-charge off settlement enrollment rate ranged from 0.5 percent to 3.4 percent. Pre-charge off settlement enrollment occurs when an account seriously past due – i.e., 130 days past due, on average, while post-charge off settlement occurs at 443 days past the charge-off date, on average.

Figure 5: PERCENT OF BALANCES ENROLLED IN SETTLEMENT (MMI)



Pre-charge-off balances are settled with a single lump-sum payment or multiple installments. Installment settlements typically consist of three payments, but pursuant to guidance from the Office of the Comptroller of the Currency for national banks and federal savings associations the

total duration of the payments should not exceed three months.²⁶⁵ However, post-charge-off settlements can be structured over any length of time. Average account settlement rate—the amount paid as a percent of the of the balance owed by the borrower for accounts that were settled—remained steady between 2019 and 2020 at about 51 percent pre-charge-off and 50 percent post-charge-off in 2020, though there was some variation in the rates among individual respondents.

DEBT SETTLEMENT COMPANIES

Borrowers sometimes work with debt settlement companies (“DSCs”), which are typically for-profit entities with the primary objective of enrolling qualified borrowers in a debt settlement program.²⁶⁶ These firms do not receive any compensation from issuers. Instead, they typically assess the borrower a fee based on the original debt balance and contingent upon completing a settlement with the creditor. Since enrolled consumers stop making payments to creditors, borrowers who work with the DSCs typically find that their accounts continue to grow in delinquency and are reported to the credit reporting agencies.²⁶⁷ Issuers may also pursue legal collections on these accounts. DSCs often advise consumers to send a cease and desist communication letter to creditors as part of the program. Those issuers who sell debt often sell charged-off debt with a cease and desist communication order to debt buyers because such orders generally make it more difficult to recover debt.

All the surveyed issuers have established policies and procedures on how to manage accounts enrolled with DSCs. Most issuers maintain a policy of not working directly with DSCs. Some issuers have policies that allow the accounts placement with special third-party agencies for

²⁶⁵ See Office of the Comptroller of the Currency, *Comptroller’s Handbook: Credit Card Lending, Version 1.2* (Jan. 2017), <https://www OCC.treas.gov/publications/publications-by-type/comptrollers-handbook/credit-card-lending/pub-ch-credit-card.pdf>.

²⁶⁶ See Greg J. Regan, *Options for Consumers in Crisis: An Updated Economic Analysis of The Debt Settlement Industry* (Data as of Mar. 31, 2017), American Fair Credit Council (Feb. 5, 2018), <https://americanfaircreditcouncil.org/wp-content/uploads/2018.02.05-AFCC-Report-Consumers-in-Crisis.pdf>.

²⁶⁷ One RFI commenter wrote that consumers have “limited niche choices in debt relief assistance,” while also lacking data necessary to make informed choices about debt relief products and services. The commenter advocated greater disclosure of performance data for non-profit and for-profit debt relief providers, including “success rate, the impact to future retirement savings, credit report/score impact, protection from legal action, and cost of the solution.” See Steve Rhode Comment Letter, at 2.

potential litigation. Most issuers that work with DSCs reported that they offer DSCs the same settlement policies available to consumers who call the creditor directly to request settlements. The share of balances enrolled in settlement by DSCs to the total was 54 percent and 44 percent, respectively, for pre-and post-charge-off balances in 2020. This relative share of balances enrolled in DSCs settlement varied significantly among the issuers. For instance, in 2020, this share ranged from a low of 9 percent to a high of 60 percent for pre-charge-off debt and from 23 percent to 62 percent in post-charge-off debt.²⁶⁸

6.3 Recovery following charge-off

Once an account charges off, it is placed into one of a variety of channels to facilitate further recovery of the balance owed, such as internal collections, third-party agency placement, litigation, and debt sale. Issuers may also warehouse certain accounts where balances are considered unlikely to be repaid.²⁶⁹ In 2020, issuers in the sample charged off \$38 billion in debt, a 10 percent decline from 2019. In general, the current survey found that:

- All issuers warehoused a significant portion of their overall post-charge-off inventory;
- All issuers used third-party agencies throughout the entire review period to collect at least a portion of their charged-off debt;
- Most issuers engaged in internal collections, though for a relatively small portion of their charged-off debt;
- Most issuers engaged in post-charge-off litigation to collect debt from consumers;

²⁶⁸ If the forgiven debt exceeds \$600, issuers may file a 1099-C for “Cancellation of Debt” with the Internal Revenue Service. Most issuers disclose to the consumer, at the time of settlement offer, the potential tax implications of the settlement, either as part of a telephone script or via letter.

²⁶⁹ Warehoused balances are generally those that issuers do not actively seek to collect and generally include accounts issuers considered to be uncollectible or unlikely to be repaid, including older accounts that may be past the statute of limitations. Some issuers also reported that they may place accounts in warehouse status when transitioning these accounts between placements.

- Most issuers reported holding a sizeable amount of debt past the statute of limitation in their inventory; and
- A minority of issuers, the same ones as reported in Bureau’s 2019 Report, sold debt in the current survey period as well.

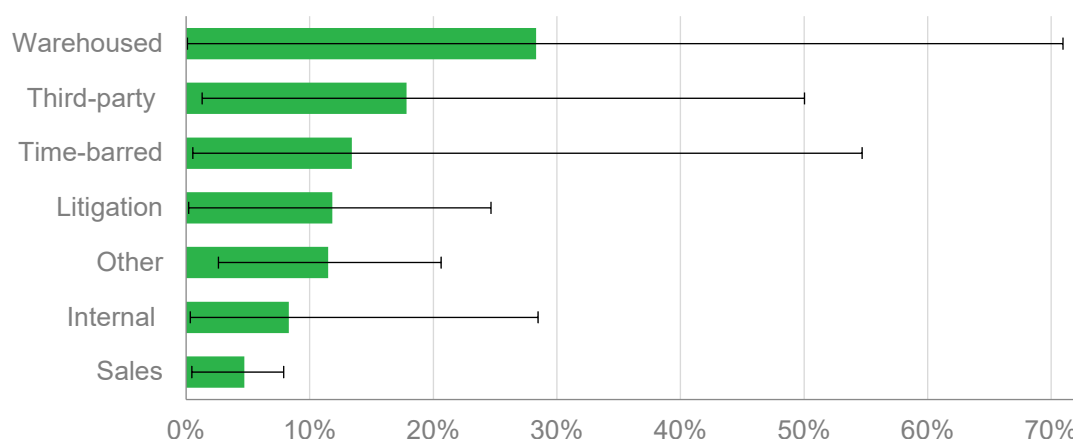
Surveyed issuers reported holding an average of 28 percent of their overall post-charge-off balance inventory in warehouse status, as shown in Figure 6.²⁷⁰

Issuers reported placing nearly 18 percent of their post-charge-off inventory with third-party agencies in any given quarter between 2019 and 2020. While there was significant variation in third-party placements between issuers, the percentage of debt that each issuer placed with third-party agencies remained stable during the survey period. Among issuers, third-party placement share ranged from one percent to 50 percent of an issuer’s total post-charge-off inventory in 2019 and 2020. This range has narrowed compared to the range of eight percent to 73 percent reported in 2017 and 2018. The range of placement into internal recovery was similarly varied among issuers.

Most issuers sued some consumers to recover unpaid balances after charge-off. On average, issuers litigated almost 12 percent of their post-charge-off balance inventory. Issuers reported holding 13 percent of their inventory in time-barred status. Finally, as noted in the Bureau’s 2015, 2017, and 2019 Reports, few issuers reported leveraging debt sales as part of their post-charge-off recovery strategy. Those issuers who sold debt reported selling an average of five percent of their post-charge-off balance inventory.

²⁷⁰ The warehouse category includes accounts that are considered uncollectible for various reasons (*e.g.*, accounts lacking current contact information for the accountholder despite many attempts to locate them).

Figure 6: SHARE OF CHARGE-OFF BALANCE INVENTORY BY RECOVERY CHANNEL IN 2019 AND 2020 (MMI)²⁷¹



6.3.1 Internal recovery

Internal recovery is not a significant piece of most issuers' overall recovery strategy for post-charge-off debt. A minority of the issuers used internal recovery as a significant piece of their overall recovery strategy, while the majority generally retained only those accounts that were ineligible for third-party placement or that were awaiting placement in another channel. On average about eight percent of an issuer's post-charge-off inventory was pursued through internal recovery in 2019 and 2020; however, one issuer chose to retain and internally recover 29 percent of its post-charge-off inventory during the survey period.

6.3.2 Third-party recovery

All issuers employed third-party agencies to recover post-charge-off debt, all on a contingency-fee basis. Most surveyed issuers placed between one percent and 50 percent of their charged-off

²⁷¹ Green bars represent the average share of post charge-off balances inventory. The issuers provided the status of post-charge-off balance inventory as of the end of each quarter in 2019 and 2020. The distributions for 2019 and 2020 were averaged by issuer, and then averaged across issuers. Black lines running through each bar represent the range of the share of post charge-off balances only for issuers that used that channel. In other words, the ranges do not include zero values, since some issuers did not use that channel. "Other" category includes accounts in Probate and Bankruptcy statuses.

balances with third-party collectors during the current survey period. Issuers described a number of reasons for placing charged-off debt with third-party agencies, including improved recovery, internal resource constraints, and the need for specialized expertise in recovering certain “special segments” of debt (*e.g.*, debt owed by deceased consumers, accounts in bankruptcy status and accounts with cease communication requests from the debtor). If an agency cannot recover money or establish contact on an account in the specified period, the creditor will generally recall the account and place with another agency.

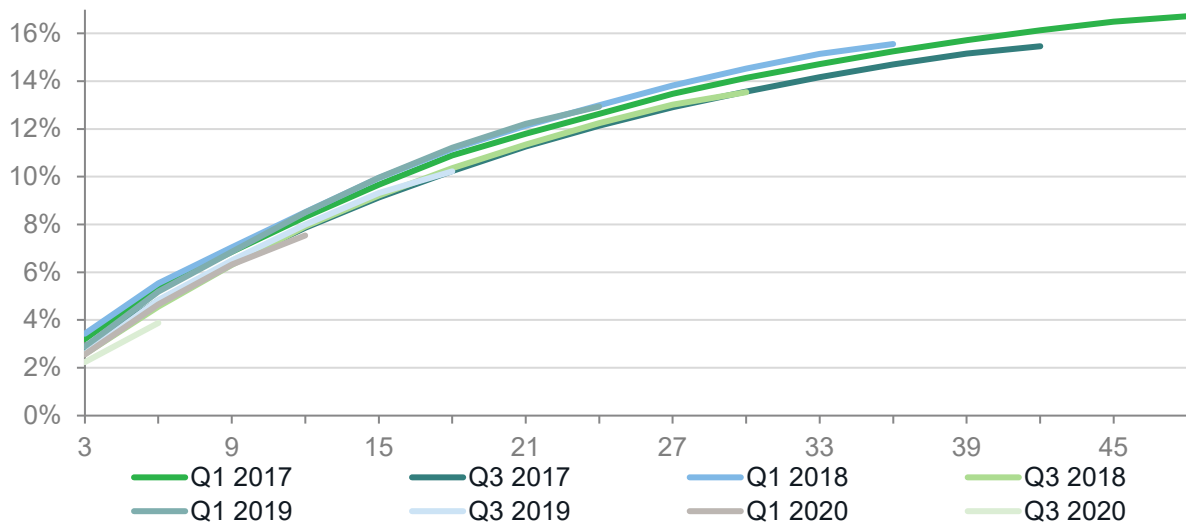
PERFORMANCE

Recovery performance is measured by the “cumulative recovery rate,” which is the share of the charged-off balance that has been recovered over an extended period. Recovery on charged-off debt can occur over several months or years. As the debt ages and the account moves from one placement to another, the incremental share of the charged-off balances that the issuer expects to recover from that account generally decreases.

For debt that charged off in the first quarter of 2017, issuers recovered an average of 17 percent of the charged-off balance within a four-year period. Nearly two-thirds of this recovery occurred within the first two-years following charge-off. Quarterly vintages show stable performance over the review period, although the latest vintage (Q3 2020) appeared to be lagging other vintages. As debt ages, incremental gains in recovery decline. Figure 7 below shows the average cumulative recovery rates for balances that charged off each quarter between the first quarter of 2017 and the fourth quarter of 2020.²⁷² While issuers recovered 8.3 percent in the first-year post-charge-off for the Q1 2017 vintage, they recovered an additional 4.3 percent, during the second year and recovered only 4.1 percent during the next two years combined.

²⁷² These rates reflect the cumulative recovery on the debt across all potential placement channels, including internal placement, third-party agency placement, litigation, and any proceeds from debt sales. Longer recovery periods mean that the issuers have had more time to collect on the debt, so the cumulative recovery rate rises over time.

Figure 7: CUMULATIVE RECOVERY RATES FOR QUARTERLY VINTAGES BY MONTHS FOLLOWING CHARGE-OFF (MMI)²⁷³



AGENCY COMPENSATION

Issuers who used third-party agencies to collect on post-charge-off debt typically paid a contingency fee that was a percentage of the amount of debt collected. Contingency fees are based on the level of placement (*e.g.*, primary, secondary, tertiary, and quaternary), with later placements typically receiving higher contingency fees as the debt ages and recovery becomes more difficult. In 2020, contingency fees ranged from 18 to 25 percent for primary placement, from 22 to 37 percent for secondary placement, from 28 to 45 percent for tertiary placement, and from 23 to 47 percent for quaternary placement. Some issuers reported higher contingency fees for some earlier placement than for later placement. These respondents noted that they engaged third party collectors who leverage digital-only approaches to collections for some older placements which incurred overall lower collection costs and hence lower contingency fees.

²⁷³ Here, each “quarterly vintage” represents balances for all accounts which charged off at any time during the given quarter. Cumulative recovery includes all proceeds collected post-charge-off, including through third-party collections, litigation, and debt sales.

VENDOR MANAGEMENT

Issuers manage their third-party vendors' compliance with the issuers' policies, procedures, applicable regulatory requirements, and financial performance targets using a variety of methods. These included:

- Monitoring of randomly sampled collection calls on a periodic basis;
- Periodic audits, including on-site visits; and
- Complaint intake, tracking, investigation, resolution, and trend analysis. All issuers have limits on consumer contact attempts that they extend to their third-party contingency agencies and monitor through quality assurance testing, routine audits, and call sampling.

Most issuers either prohibit or strictly limit their third-party collectors from using email and text to initiate contact with borrowers in post-charge-off collections, although information may be sent via these channels if a borrower specifically requests it. Only a minority of the surveyed issuers reported that they sent an agency placement notification letter to alert the borrower that their debt had been placed with a third-party agency. These letters informed borrowers that their debt had been transferred and provided the name and contact information of the third-party agency. All surveyed issuers monitored their third-party agencies' collections performance, both relative to the issuer's stated targets and to the performance of other agencies in the network.

6.3.3 Debt sales

As part of their post-charge-off recovery strategy, some credit card issuers may sell credit card debt at a discounted rate to pre-selected debt buyers, receiving a fraction of the outstanding account balances sold. Typically, these sales are structured as "forward-flow" contracts, where a pool of accounts that meet pre-determined criteria (*e.g.*, at charge-off or post-primary placement) are sold to the debt buyer on an ongoing (*e.g.*, monthly) basis. Issuers may also occasionally identify additional segments of accounts and sell them on an ad-hoc basis depending upon market conditions. Finally, issuers may employ specific debt sale strategies for special segments like accounts where the issuer has received a notice of bankruptcy, where specialized expertise may be required to recover the amount owed. Generally, after the sale, creditors update the accounts to credit reporting agencies as "Sold/Transferred" with a \$0 balance.

MARKET STRUCTURE

The debt-buying market for credit card debt remains highly concentrated among a few buyers that purchase debt from many of the same issuers. Most of the surveyed issuers that sold debt reported selling to an average of 10 buyers year-over-year. However, there is a general trend of consolidation among surveyed issuers' debt buyer networks: the Bureau's 2017 Report found that in 2016, 20 unique debt buyers bought debt from the surveyed issuers that sold debt, while the current survey found that there were 17 unique buyers in 2020.²⁷⁴ Nine buyers purchased debt from two or more issuers, while six buyers bought debt from all the issuers that sold debt.

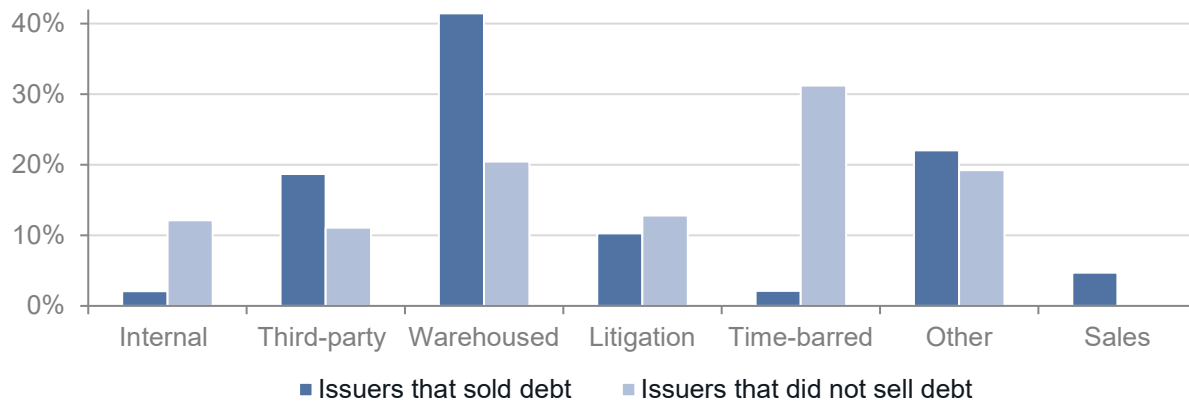
DEBT SALE VOLUME

Fewer than half of issuers surveyed sold debt in 2019 and 2020, and these issuers were the same ones that reported selling debt in the Bureau's 2017 and 2019 Reports. Issuers that reported that they did not sell debt in 2019 and 2020 also indicated that they have no plans to do so in 2021. A majority of issuers that sold debt during 2020 reported that they planned to sell roughly the same amount as in prior years while a minority of the issuers reported planning for a lower percentage of debt to be sold in 2021 compared to 2020. In general, issuers that planned to reduce their debt sale in 2021 are expecting lower delinquencies and losses. The survey respondents that sold debt in 2020 indicated that they planned to sell between 38 percent and 50 percent of their freshly-charged-off debt in 2021 at an expected average price ranging from \$0.10 to \$0.12 per dollar of debt.

Issuers that sold debt in 2019 and 2020 reported that in that period, roughly 5 percent of total post-charge-off inventory was sold to debt buyers. Figure 4 compares the distribution of total post-charge-off inventory by recovery channel for issuers that did and did not sell debt in 2019 and 2020. Issuers that did not sell debt kept a greater portion of their post charge-off balances in the internal recovery channel. All issuers held a significant share of debt in the warehouse category though sellers kept relatively higher percentages at any given time, perhaps, awaiting ad hoc sales decisions. It appears that those issuers who sell debt do so well before accounts reach time-barred status as the share of post charge-off inventory in time-barred status is much lower (2 percent) compared to the share (31 percent) for those who do not sell.

²⁷⁴ See 2017 Report, *supra* note 6, at 327.

Figure 8: SHARE OF CHARGED-OFF BALANCE INVENTORY BY CHANNEL FOR ISSUERS THAT DID AND DID NOT SELL DEBT (MMI)²⁷⁵



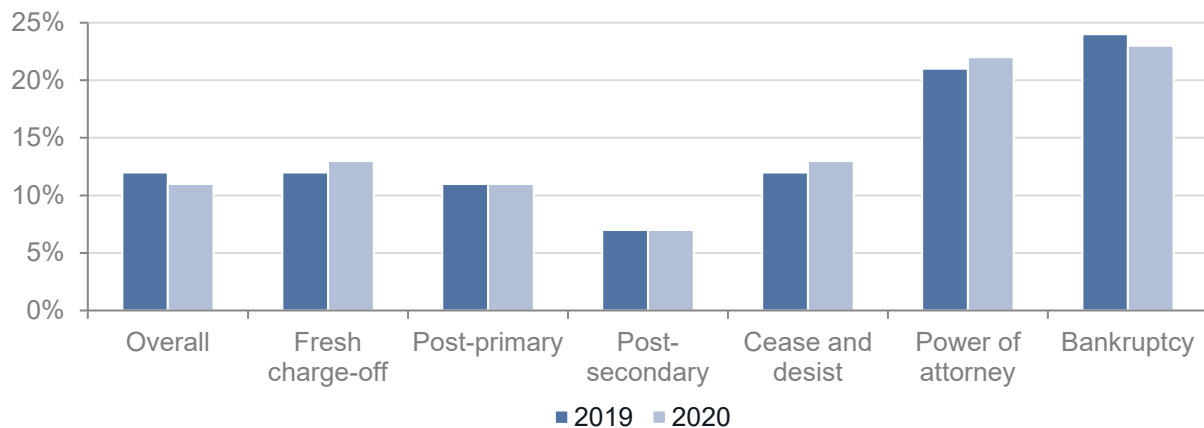
DEBT PRICE

The overall average price of debt decreased from 12 percent to 11 percent of face value between 2019 and 2020. Figure 9 shows the average price of debt by type. Charged-off debt generally sells for a fraction of the account balance owed or “face value,” at a price largely dependent upon the age of the debt. Additionally, certain special segments of debt, such as accounts for which the issuer has received notice of bankruptcy, may command higher prices. The price of bankruptcy accounts may be above the overall average price of debt sold because the buyer may be able to recover a larger portion of the debt by filing proofs of claim as part of the bankruptcy process. However, the price of freshly-charged-off debt increased from 12 percent to 13 percent of face value over the same period. The price of freshly-charged-off debt is now three percentage points lower than its previous high of 16 percent reported in 2016.²⁷⁶

²⁷⁵ Bars represent the average share of total charged-off balance inventory in each of the five recovery channels. The issuers provided the share of balances placed in each channel by quarter as of the end of the quarter for 2019 and 2020. The distributions for 2019 and 2020 were averaged by issuer, and then averaged across issuers that sold debt and issuers that did not sell debt. “Other” category includes accounts in Probate and Bankruptcy statuses.

²⁷⁶ See 2017 Report, *supra* note 6, at 329.

Figure 9: AVERAGE PRICE OF DEBT SOLD AS A PERCENTAGE OF ACCOUNT BALANCE BY TYPE OF DEBT SOLD (MMI)



Debt sold after one or more placements fetched lower prices (11 percent for post-primary and 7 percent for postsecondary and beyond). Accounts where the collector received a request to cease and desist communications were priced at 13 percent in 2020 while accounts with power of attorney on file sold at much higher price (22 percent in 2020). Accounts in for which there was a chapter 13 bankruptcy notice sold for a significantly higher price of 23 percent in 2020 compared to a 14 percent price received in 2018, suggesting higher expected recoveries from such accounts.

DEBT SALE CONTRACTS

All survey respondents that sold debt reported that they provide buyers with key documents and account information at the time of sale, including the account’s last 12 statements, amount and date of the last account payment, etc. After the debt is sold, issuers reported that they may provide additional documentation at the buyer’s request, including cardholder agreements, written applications, affidavits, and earlier account statements. While most issuers who sold debt reported that debt buyers do not pay a fee to access these documents, a minority reported charging a fee to provide additional documentation.

All surveyed issuers that sold debt also stated that they send out “goodbye” letters to the cardholder. These letters inform borrowers of the sale and provide the name and contact information of the buyer.

Contractual restrictions imposed on buyers by all surveyed issuers that sold debt are generally consistent with OCC Bulletin 2014-37, and include:²⁷⁷

- Restrictions on resale of the debt, which is limited to special circumstances (*e.g.*, the buyer exiting the market);
- Restrictions on buyers' ability to litigate purchased accounts; and
- Prohibitions on litigation by buyers on debt that is past the statute of limitations.

Debt sale contracts generally do not restrict debt buyers from reporting to credit reporting agencies. Instead, the contracts require that the buyer adhere to all Fair Credit Reporting Act requirements.

6.4 Litigation

As of 2020, all surveyed issuers reported using litigation strategies for both pre- and post-charge-off accounts, although only a minority of issuers reported initiating litigation proceedings prior to charge-off. According to the Bureau's current survey, issuers may select accounts for litigation based on factors such as account balance and estimated likelihood of payment (indicated by the presence of assets and employment income). All issuers in the survey that litigated credit card debt reported that they used an external network of attorneys. A minority of issuers also reported that they leverage an internal attorney network to execute their litigation strategies. As observed in the Bureau's 2017 and 2019 Reports, a few issuers noted that they may litigate accounts upon notification that a consumer is working with a debt settlement company.

All issuers that litigated debt reported that the volume of new balances placed in the litigation channel declined significantly during the survey period, with year-over-year decline ranging from nearly 5 to 49 percent across issuers. These declines came mainly in the second and third quarters of 2020 in response to pandemic-related developments including court closures. Since

²⁷⁷ See Office of the Comptroller of the Currency, *Consumer Debt Sales - Risk Management Guidance*, OCC Bulletin 2014-37 (Aug. 4, 2014), <http://www OCC.gov/news-issuances/bulletins/2014/bulletin-2014-37.html>.

then, issuers have increased litigation volume, though not up to pre-pandemic levels. For issuers that used the litigation channel, litigated balances as a percentage of total post-charge-off inventory ranged from a low of five percent to a high of 24 percent. Survey respondents generally selected higher-balance accounts from their portfolios for litigation, with average litigated account balances ranging from \$2,700 to \$12,300 across issuers during the current survey period, compared to average pre-charge-off balances ranging from \$940 to \$5,800.

DEFAULT JUDGMENTS

A default judgment is a ruling in favor of the plaintiff collector when the defendant consumer has failed to respond to a summons or to appear in court. More than half of the issuers that use litigation as a strategy did not report default judgments separately. However, respondents who do track default judgments separately reported that more than 69 percent of all judgments entered were default judgments. This ratio was consistent with the Bureau's previous reports and remained relatively flat between 2017 and 2020 among issuers who reported default judgments separately.²⁷⁸

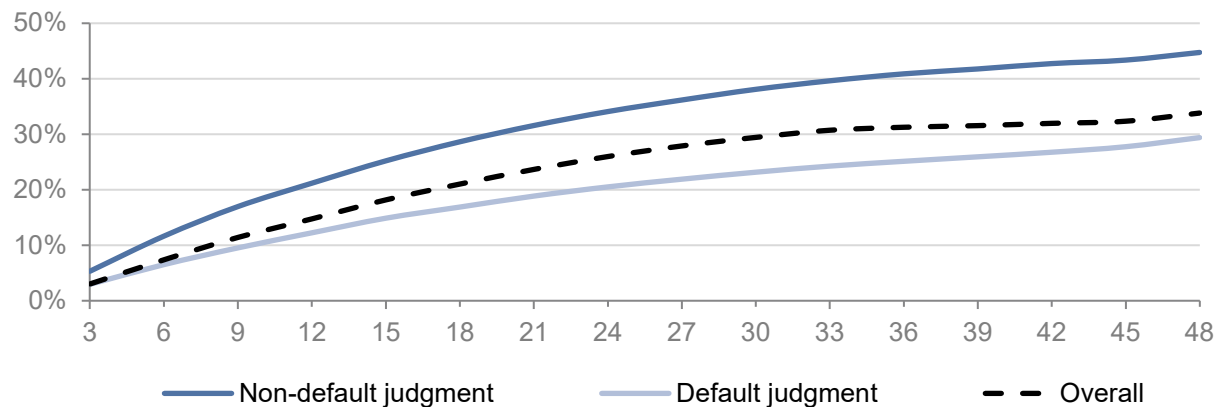
LITIGATION RECOVERY

After a creditor has won a judgment on a litigated account, recovery may occur over a prolonged period. To recover the debt, the issuer may exercise a wage garnishment against the debtor or ask the debtor to enroll in a payment plan. Thus, litigation generally produces a steady stream of recoveries from accounts with judgments against them, spread over a longer time period that may span several years. Figure 10 shows the cumulative recovery rate by months since judgment for vintages of accounts where a judgment was obtained between 2017 and 2020. Issuers recovered an average of 34 percent of all judgment balance at 48 months since the judgment was received, the longest performance window captured in the survey). The average four-year cumulative recovery rate for accounts with judgments was twice the overall four-year cumulative recovery rate for all charged-off accounts (compare with Figure X). Accounts with judgments may have higher cumulative recovery rates because issuers disproportionately litigate more accounts with a higher ability to repay, which depends on borrowers' assets, employment, and other income. Cumulative recoveries from judgment accounts increased steadily over time as

²⁷⁸ See 2017 Report, *supra* note 6, at 326.

each vintage aged and a consistent flow of payments were applied to the account. Accounts with default judgments generally had lower cumulative recovery rates than those with non-default judgments (29 percent compared to 45 percent at 48 months since judgment).

Figure 10: CUMULATIVE RECOVERY RATES BY MONTHS SINCE JUDGMENT WAS RECEIVED (MMI)



6.5 Credit card debt collection during COVID-19

COVID-19 brought significant disruption to credit card issuers.²⁷⁹ Issuers responded to these disruptions and related pressures in varying ways, entailing both operational changes as well as (at least temporary) changes to debt collection policies, procedures, and practices.

In response to various state and federal restrictions including stay-at-home orders and other business restrictions, all card issuers reported migrating from on-site to work-from-home arrangements for their collections operations. Some issuers reported temporarily closing several brick-and-mortar collections operations sites due to state and local restrictions. All issuers adopted remote monitoring of these work-from-home agents, while implementing added information security measures, such as restrictions on printing documents at home from

²⁷⁹ For a broader discussion of the impact of COVID-19 on credit card issuers and their response to the pandemic, see Section 5.5.

employer-provided computers. While issuers allowed remote work as a temporary response to the pandemic, many issuers indicated that they would continue to provide work-from-home options to at least some employees on a permanent basis. The Bureau's supervisory prioritized assessments also identified similar responses by debt collectors.

Issuers noted an uptick in inbound call volumes, especially in the second quarter 2020, from impacted consumers seeking relief.²⁸⁰ Issuers deployed several tactics to meet this increased demand, including increasing hiring, reducing outbound calls, further leveraging digital channels, encouraging consumers to use self-servicing options on their interactive voice-response (IVR) platforms, and online enrollment into consumer relief programs. At least some issuers reported that some of these measures may be made permanent.

Pursuant to COVID-19, many issuers suspended placing accounts with third parties in states where there were various state-mandated debt collections restrictions, including making outbound calls. Many issuers also paused legal collection efforts, such as lawsuits, judgments, garnishments, and bank levies, in response to various state restrictions and court-closures. While many issuers reported resuming filing new lawsuits starting in the second half of 2020, some still have not restarted new wage garnishments as of December 2020 and bank levies due to the difficulties in identifying the source of stimulus funds in consumer's bank account.

In addition to offering the existing suite of short-term and long-term hardship programs, all issuers reported offering some version of a skip-a-pay program with varying lengths.²⁸¹ Some issuers reported expanding proactive settlement offer campaigns, along with lowering the settlement threshold by five to 10 percent, in order to accommodate pandemic-impacted consumers. All issuers reported modifying their agency-placement recall strategy to accommodate non-payment due to enrollment in pandemic related hardship programs. All issuers reported adhering to CARES Act credit reporting requirements by ensuring that accounts that meet the terms of various accommodation programs did not advance from their current level of delinquency while enrolled in those programs.

²⁸⁰ For more on call volumes and wait times, *see* Section 5.5.

²⁸¹ *See* section 5.5 for more information on issuer relief programs.

Those issuers who used debt sales as part of their recovery strategy reported adjustments to the timing and volume of sales in response to the pandemic. A minority of issuers who sold debt reported temporarily suspending sales in states with various restrictions on debt collections. These issuers also reported receiving generally lower prices for sold debt during initial period of the pandemic. Issuers who sold debt generally report that both sales volume and prices recovered fully to pre-pandemic levels by the end of 2020.

7. Innovation

The Bureau’s Congressional mandate to review the credit card marketplace specifically instructs the agency to “assess card product innovation.”²⁸² As noted in the 2019 Report, consumer and provider access to digital technology continues to affect the design and offering of consumer credit products and change the ways in which consumers obtain and use credit cards.

This section covers some recent developments in more detail. Section 7.1 reviews new products and developments in the credit card market since the 2019 Report, including the growth of certain point-of-sale lending products. Section 7.2 discusses consumer adoption of innovative technologies, particularly those that have seen rapid growth as a result of COVID-19.

7.1 Product innovation

The Bureau’s statutory mission includes facilitating innovation in markets for consumer financial products and services.²⁸³ Since issuing the 2019 Report, the Bureau has observed, and in some cases directly facilitated, the development and expansion of new products and features in the credit card market. Some of these innovations implicate a broad array of regulatory

²⁸² 15 U.S.C. § 1616(a)(4)(D) (2012). Congress established the Bureau’s statutory purpose as ensuring that all consumers have access to markets for consumer financial products and services and that markets for consumer financial products and services are fair, transparent, and competitive. *See* 12 U.S.C. 5511(a) (2012). The Bureau’s objective includes exercising its authorities for the purpose of ensuring that markets for consumer financial products and services operate transparently and efficiently to facilitate access and innovation. *See* 12 U.S.C. 5511(b)(5) (2012).

²⁸³ *See* 12 U.S.C. § 5511(b)(5).

provisions that card issuers working in this space must navigate carefully. In general, recent innovations fall in and into three categories:

- Credit access and availability, particularly for less creditworthy borrowers;
- Fixed-payment features and non-card ‘buy-now-pay-later’ point-of-sale credit products, and
- Other innovations, including virtual cards and new forms of rewards redemption.

7.1.1 Credit access and availability

Recent innovations have opened new options for thin-file or credit invisible borrowers to acquire credit cards and build or repair their credit history.²⁸⁴ These new offerings leverage a number of innovative approaches, including the use of new types of data to facilitate underwriting as well as new types of product structures and features. In some cases, these new offerings make use of consumer authorized access to account data held at other institutions.²⁸⁵ Consumer authorized access to account data supports the collection of cash flow information used in underwriting by some creditors.²⁸⁶

²⁸⁴ Kenneth P. Brevoort et al., *Data Point: Credit Invisibles*, Bureau of Consumer Fin. Prot. (May 2015), http://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf. The Bureau estimates 26 million U.S. adults lack sufficient data to generate a typical credit bureau score, either because they do not possess any reported credit history or because their credit history is limited or stale.

²⁸⁵ The Bureau is considering a rulemaking to implement section 1033 of the Dodd-Frank Act to address the availability of consumer financial account data in electronic form. In November 2020, the Bureau released an Advance Notice of Proposed Rulemaking (ANPRM) concerning consumer data access to implement section 1033, accepting comments until early February 2021. The Bureau is reviewing comments received in response to the ANPRM and considering those comments in assessing potential next steps. Bureau of Consumer Fin. Prot., *Spring 2021 Rulemaking Agenda* (June 11, 2021), <https://www.consumerfinance.gov/about-us/blog/spring-2021-rulemaking-agenda/>.

²⁸⁶ Consumer authorized access to account data also supports several other provider use cases such as identity verification, authentication, and facilitation of payments and disbursements.

Some providers are offering new types of secured credit cards to consumers lacking credit scores or credit files.²⁸⁷ For example, issuer Varo Bank introduced a credit card which reserves the amount spent from a linked bank account to ensure users never miss a payment. According to Varo, the card is aimed at consumers seeking to establish or improve their credit score.²⁸⁸ Similarly, fintech provider Chime offers a secured credit card that features a variable spending limit based on the amount the consumer places in its secured account, without requiring a credit check.²⁸⁹ Another example is fintech provider Self, which offers a secured credit card to borrowers of its credit builder installment loan who allocate a portion of their secured loan funds to the secured credit card account without requiring a credit check or additional deposit.²⁹⁰

As noted above, some recent credit card innovation has occurred at least in part due to Bureau engagement. One such example relates to a proposed design for a secured credit card offered by issuer Synchrony Financial. Pursuant to an application by Synchrony, in 2020 the Bureau issued a compliance assistance sandbox (CAS) approval order to Synchrony Financial regarding their proposal to develop a “dual-feature credit card” (DFCC) designed for consumers with limited or damaged credit history.²⁹¹ Synchrony’s application describes a process whereby a card would be provided to consumers as a secured card with a required security deposit but may become eligible to be converted to an unsecured card following 12 months of satisfactory repayment activity. Unlike a typical secured card, the terms of both secured use and unsecured use would

²⁸⁷ The 2017 Report discusses secured credit cards in more detail, including the potential for secured credit cards to facilitate thin- or no-file consumers’ efforts to build or rebuild their credit profiles. *See* 2017 Report, *supra* note 6, Section 6.

²⁸⁸ Varo Bank, *Varo Bank Introduces Varo Believe, a New and Better Way for Millions of Americans to Build Credit* (Feb. 25, 2021), https://www.varomoney.com/press_release/varo-bank-introduces-varo-believe-a-new-and-better-way-for-millions-of-americans-to-build-credit/.

²⁸⁹ Chime, *Chime Credit Builder*, <https://www.chime.com/credit-builder/>.

²⁹⁰ Self, *Introducing the Self Visa Credit Card*, <https://www.self.inc/visa-secured-credit-card>.

²⁹¹ Bureau of Consumer Fin. Prot., *Consumer Financial Protection Bureau Issues Approval Order to Facilitate the Use of Dual Usage Credit Cards* (Dec. 30, 2020), <https://www.consumerfinance.gov/about-us/newsroom/consumer-financial-protection-bureau-issues-approval-order-to-facilitate-the-use-of-dual-usage-credit-cards/>. *See also* Bureau of Consumer Fin. Prot., *Policy on the Compliance Assistance Sandbox* (Sept. 10, 2019), https://www.consumerfinance.gov/documents/7989/cfpb_final-policy-on-cas.pdf.

be disclosed at the opening of the “dual-feature credit card” account. The terms would then be redisclosed with the opportunity to ‘opt in’ to unsecured use. Synchrony applied for a CAS approval order because the product structure of the DFCC raised questions about the applicability of existing law both to Synchrony’s disclosure of the two modes of use and to the substance of the envisioned graduation mechanism. The Bureau is monitoring the consumer impact of this product through data Synchrony provides on a quarterly basis.

Other providers have introduced novel structures or features into their credit card offerings for borrowers with limited credit history. For example, in 2020 fintech TomoCredit introduced a credit card that does not require applicants to have a credit score. The card has a mandatory seven-day automatic payment mechanism designed to allow users to build credit without carrying a balance.²⁹² Further, Acima, a subsidiary of rent-to-own retailer Rent-A-Center, announced a “lease-to-own” payments card for credit constrained customers that can be used to complete lease transactions at participating Acima merchants for certain purchases.²⁹³

Additionally, Apple announced a feature called “Apple Card Family” that would allow partners and families to build a shared credit history.²⁹⁴ Apple states that the card can be shared or merged by eligible spouses or partners over age 18 as co-owners. Eligible co-owners must have an Apple device with the latest version of iOS that supports Apple Card and meet all other eligibility requirements for Apple Card. Parents can also share their card with children over 13 years of age with optional spending limits and controls (like ‘authorized users’), but co-owners are responsible for repayment. Payment history is furnished to the credit bureaus for co-owners as well as other users who ‘opt in’ to credit reporting. Existing Apple Card users can also merge their accounts, creating a credit line with a higher shared limit while keeping the lower APR of the two accounts.

²⁹² See TomoCredit, Frequently Asked Questions, <https://tomocredit.com/faq>.

²⁹³ BusinessWire, *Acima Unveils Industry’s First Lease-to-Own Anywhere Virtual Payments Card* (Apr. 14, 2021), <https://www.businesswire.com/news/home/20210414005272/en/Acima-Unveils-Industry%E2%80%99s-First-Lease-to-Own-Anywhere-Virtual-Payments-Card>.

²⁹⁴ Apple Inc., Press Release, *Apple introduces Apple Card Family, enabling people to share Apple Card and build credit together* (Apr. 20, 2021), <https://www.apple.com/newsroom/2021/04/apple-introduces-apple-card-family-enabling-people-to-share-apple-card-and-build-credit-together/>.

About 10 of the largest U.S. banks will collaborate to share data on customers' deposit accounts as part of an initiative to extend credit to thin-file or credit invisible borrowers.²⁹⁵ The banks will use bank account data from other financial institutions to help underwrite credit card applications from borrowers who may have insufficient credit history. The collaboration began through a project launched by the OCC in 2020 called Project REACH, or the Roundtable for Economic Access and Change and is designed to help banks lend to individuals who do not have credit scores but are financially responsible.

Credit access expansion can be positive but should be done responsibly and in a way that is understandable to consumers. In its 2019 Report, the Bureau discussed the potential of new technology in underwriting, such as machine learning and alternative data, to expand credit access.²⁹⁶ The Bureau's market monitoring indicates use of these technologies has continued to grow since 2019, including in the offering of consumer credit cards.²⁹⁷ However, published

²⁹⁵ See Peter Rudegeair et al., JPMorgan, *Others Plan to Issue Credit Cards to People With No Credit Scores*, Wall St. J. (May 13, 2021), <https://www.wsj.com/articles/jpmorgan-others-plan-to-issue-credit-cards-to-people-with-no-credit-scores-11620898206>.

²⁹⁶ See 2019 Report, *supra* note 6, at 182. The Bureau also issued a joint statement with four other federal financial regulatory agencies on the use of alternative data in underwriting. Bureau of Consumer Fin. Prot., *Federal Regulators Issue Joint Statement on the Use of Alternative Data in Credit Underwriting* (Dec. 2019), <https://www.consumerfinance.gov/about-us/newsroom/federal-regulators-issue-joint-statement-use-alternative-data-credit-underwriting/>.

²⁹⁷ For example, a fintech startup called Deserve launched a digital-only credit card which uses machine learning and alternative data in its underwriting. Another credit card company called Petal uses alternative data in its underwriting. Petal recently spun off underwriting unit in an effort to market its alternative data underwriting services to other lenders. Zachary Miller, *'Financial providers need actionable insights, not raw data': Credit card company Petal spins off B2B data unit, Prism Data*, Tearsheet (Apr. 27, 2021), <https://tearsheet.co/data/financial-providers-need-actionable-insights-not-raw-data-credit-card-company-petal-spins-off-b2b-data-unit-prism-data/>; Businesswire, *Deserve Launches Digital First Card on Mastercard Network for Mobile-First Experience* (Apr. 28, 2021), <https://www.businesswire.com/news/home/20210428005653/en/>. The Bureau understands that in many cases, data to support such alternative data-powered underwriting is procured via consumer-permissioned data access, a subject of the Bureau's recent Advance Notice of Proposed Rulemaking on "Consumer Access to Financial Records." 85 FR 71003 (Nov. 6, 2020).

findings from a New York Department of Financial Services investigation describe common consumer confusion related to the use of these technologies.²⁹⁸

7.1.2 Buy now, pay later loans

In recent years, the market and reach of certain point-of-sale lending products — widely referred to as “buy now, pay later” (“BNPL”) loans — have grown significantly and now may compete with credit cards at both the online and the physical point of sale.²⁹⁹ BNPL lenders such as Affirm, Klarna, and Afterpay offer consumers the opportunity to “split” a purchase into a number of installments at the point-of-sale of merchant partners. Consumers generally repay BNPL loans through debit and credit cards, typically by automatic repayment. In the 2019 Report, the Bureau noted that “[s]ome of these products have shown rapid growth—and attracted calls for more regulatory attention—in foreign markets.”³⁰⁰ Since that time, the popularity of BNPL has continued to grow, both abroad and in the United States. One market observer estimates that U.S. BNPL lending jumped from \$3 billion in 2019 to \$39 billion in

²⁹⁸ The NY DFS noted these findings in its investigation of allegations of discrimination against women in the underwriting of the Apple Card, issued by Goldman Sachs. That investigation noted consumer misconceptions regarding credit underwriting for people with shared finances and a lack of transparency in the explanations of credit decisions presented to consumers. The investigation also noted a six-month waiting period on responses to credit decision appeals. New York State Dept. of Fin. Serv., *Report on Apple Card Investigation* (Mar. 2021), https://www.dfs.ny.gov/reports_and_publications/202103_report_apple_card_investigation. Currently, federal law mandates that lenders explain only credit denials to applicants, not the reasons for the amount and terms of credit granted. In response to the perceived lack of transparency, Goldman introduced new consumer education tools explaining what factors are used in setting credit terms and providing step-by-step instructions that consumers can complete to become eligible for the Apple Card. See Apple Inc., *Designed to support your financial health*, <https://www.apple.com/apple-card/financial-health/>.

²⁹⁹ Estimates for the size of the entire BNPL market vary. However, some of the largest BNPL lenders saw significant growth in 2020. For example, Afterpay financed over \$9.8B in loans in North America during the second half of 2020, up 106 percent year-over-year. By the end of 2020, Afterpay had 8.1M active North American users, up 127 percent Year-over-year. Similarly, Klarna reached 14M U.S. consumers by the end of 2020, up 115 percent Year-over-year. See *Afterpay*, ASX Announcements (2021), <https://corporate.afterpay.com/investors/asx-announcements#>. See also *Klarna*, *Annual financial statement release* (2021), <https://www.klarna.com/assets/2021/02/25062747/Annual-Financial-Statement-Release-Klarna-Bank-AB-publ-2020-Final.pdf>.

³⁰⁰ 2019 Report, *supra* note 6, at 177.

2020, and will exceed \$100 billion annually within three years.³⁰¹ BNPL lending has also continued to attract regulatory attention (as well as calls for further regulatory attention) domestically and internationally.³⁰² BNPL providers are among the growing number of non-banks that utilize consumer-authorized access to account data to deliver their service. Access to information from consumer accounts at financial institutions is used by BNPL providers for several purposes, including to verify consumer information and to facilitate payments.

The increased pace of adoption of BNPL has been partially attributed to COVID-19, during which many consumers shifted spending online.³⁰³ This shift presented an opportunity for retailers partnering with financial companies to offer BNPL at digital point of sale—the primary channel by which the product is offered.

³⁰¹ Brian Riley, *Buy Now, Pay Later: Gaining Scale and the Disrupting Status Quo in Lending*, Mercator Advisory Grp. (May 07, 2021), <https://www.mercatoradvisorygroup.com/Reports/Buy-Now-Pay-Later-Gaining-Scale-and-the-Disrupting-Status-Quo-in-Lending/>.

³⁰² For example, The U.K. announced that BNPL credit agreements would be regulated by the Financial Conduct Authority, the country's financial regulator. In Sweden, new rules were passed which would discourage online shoppers from paying with credit—including BNPL products. In California, BNPL lenders have come under scrutiny from state regulators for making loans without state lending licenses. Press Release, CA Dep't of Fin. Prot. and Innovation, *Point-of-Sale Lender QuadPay Agrees to Cease Illegal Loans, Pay Refunds in Settlement with the California Department of Business Oversight* (Apr. 22, 2020), <https://dbo.ca.gov/2020/04/22/point-of-sale-lender-quadpay-agrees-to-cease-illegal-loans-pay-refunds-in-settlement-with-the-california-department-of-business-oversight/>; Press Release, CA Dep't of Fin. Prot. and Innovation, *Point-of-Sale Lender Sezzle Agrees to Cease Illegal Loans, Pay Refunds in Settlement with the California Department of Business Oversight* (Jan. 16, 2020), <https://dfpi.ca.gov/2020/01/16/point-of-sale-lender-sezzle-agrees-to-cease-illegal-loans-pay-refunds-in-settlement-with-the-california-department-of-business-oversight/>; Ketharaman Swaminathan, *Sweden bids to steer customers away from installment payments amid fears over mounting debt*, Finextra (July 02, 2021), <https://www.finextra.com/newsarticle/36141/sweden-bids-to-steer-customers-away-from-installment-payments-amid-fears-over-mounting-debt>.

³⁰³ Peter Rudegeair et al., *Covid-19 Economy Boosts 'Buy Now, Pay Later' Installment Services*, Wall St. J. (Dec. 30, 2020), <https://www.wsj.com/articles/covid-19-economy-boosts-buy-now-pay-later-installment-services-11609340400>; Stuart Condie, *'Buy Now Pay Later' Is Having a Moment as Pandemic Changes Shopping Habits*, Wall St. J. (July 11, 2020), <https://www.wsj.com/articles/buy-now-pay-later-is-having-a-moment-as-pandemic-changes-shopping-habits-11594459800>.

The extent to which BNPL competes directly with credit cards — either as a means of payment for consumers’ purchases or as a means of purchase financing — is unclear.³⁰⁴ While BNPL loans are offered at the point-of-sale to facilitate quick extensions of credit and likely capture some volume from other payment methods like credit cards, it is possible that a portion of BNPL volume comes from *de novo* sales originating from the availability of BNPL itself.

Certain key differences between BNPL loans and credit cards may present risks to consumers. Unlike credit card providers, BNPL lenders are not required to consider ability to repay before extending credit.³⁰⁵ Additionally, BNPL loans may not provide the same disclosures as other types of consumer credit.³⁰⁶ BNPL late fees are not associated with specific regulations like credit card late fees, and BNPL users do not have the same billing error resolution procedures that are available to credit card users.

Traditional credit card issuers are investing in more ways to offer their own “fixed-payment” features, possibly in response to BNPL’s explosive growth. In the 2019 Report, the Bureau discussed fixed-payment features offered on some credit cards which utilize a card’s existing line

³⁰⁴ A recent consumer survey appeared to indicate that consumers view BNPL as a potential alternative to credit cards. In that survey, 62 percent of respondents said that BNPL could replace their credit cards, but only 27 percent would like for that to happen. See Maurie Backman, *Study: Buy Now, Pay Later Services Continue Explosive Growth*, Motley Fool (July 20, 2020), <https://www.fool.com/the-ascent/research/buy-now-pay-later-statistics/>. Furthermore, not all card issuers support BNPL transactions. Capital One blocked its customers from using its credit cards to pay off BNPL loans, citing risks associated with BNPL transactions. See Byron Kaye, *Capital One stops ‘risky’ buy-now-pay-later credit card transactions*, Reuters (Dec. 07, 2020), <https://www.reuters.com/article/us-capital-one-fin-payments-idCAKBN28HoOR>.

³⁰⁵ BNPL loans that are structured as zero-interest loans of four payments or less typically are not reported to credit bureaus. As a result, users can potentially “stack” BNPL loans across different providers, leading to potential situations in which consumers may face difficulty repaying one or many loans. There is some evidence that BNPL loans pose a risk of overextension. In Australia, a country where the market for BNPL loans is mature and the product is well-established in the consumer financial ecosystem, the country’s financial regulator found that BNPL users with credit cards were much more likely to be revolvers than other credit card users. Additionally, survey data showed that 20% of BNPL users cut back on essentials and 15% took out additional credit to make BNPL payments. Austrl. Sec. & Inv. Comm’n, *REP 672 Buy now pay later: An industry update* (Nov. 16, 2020), <https://asic.gov.au/regulatory-resources/find-a-document/reports/rep-672-buy-now-pay-later-an-industry-update/>.

³⁰⁶ For BNPL loans that are structured as zero-interest loans of four payments or less, some providers state that they do not meet the TILA definition of “creditor” and therefore do not have to provide TILA disclosures. Some BNPL loans are structured as longer-term installment loans; these loans are subject to TILA and other requirements.

for a repayment plan that is separate from payments made towards the revolving feature in the account.³⁰⁷ American Express’s “Plan It” feature was recently added to the point of sale of American Express’s travel website.³⁰⁸ Alliance Data Systems acquired a BNPL provider and partnered with financial services provider Fiserv to enable point-of-sale lending products for merchants using Fiserv’s merchant acquiring services.³⁰⁹ Synchrony Financial announced plans to offer a short-term installment loan product to its retail partners in late 2021.³¹⁰ Barclays also announced a partnership with a BNPL provider to offer “white-label” point-of-sale financing options to merchants.³¹¹

Two card networks are developing capabilities to facilitate point-of-sale lending options. Visa is piloting ‘Visa Installments,’ a four-payment installment solution that will allow issuers to streamline merchant integration at the merchant’s digital POS.³¹² Visa Installments turns already-approved credit lines into installment payment options for Visa cardholders. The pilot program involves TSYS, the first issuer technology partner to offer Visa’s new solution enabling participating financial institutions to offer installment plans to their cardholders. Similarly, Mastercard announced it would develop installment capabilities with TSYS to deliver installment capabilities to issuers, who could then offer installment solutions to Mastercard

³⁰⁷ See 2019 Report, *supra* note 6, at 177-179.

³⁰⁸ Previously, “Plan It” was only available retroactively for card purchases that were already made.

³⁰⁹ PR Newswire-Alliance Data, *Alliance Data's Bread To Enable Point-of-Sale Lending for Fiserv Merchant Clients* (Apr. 2021), <https://www.prnewswire.com/news-releases/alliance-datas-bread-to-enable-point-of-sale-lending-for-fiserv-merchant-clients-301279942.html>, PR Newswire-Alliance Data, *Alliance Data Completes Acquisition of Bread* (Dec. 4, 2020), <https://www.prnewswire.com/news-releases/alliance-data-completes-acquisition-of-bread-301186414.html>.

³¹⁰ See Polo Rocha, *Synchrony's new 'Pay in 4' loan borrows from buy now/pay later upstarts*, American Banker (Sep. 9, 2021), <https://www.americanbanker.com/news/synchronys-new-pay-in-4-loan-borrows-from-buy-now-pay-later-upstarts>.

³¹¹ Barclays, *Barclays US Consumer Bank Expands Point-of-Sale Financing Suite to Include Installment Options Powered by Amount* (Apr. 27, 2021), <https://www.prnewswire.com/news-releases/barclays-us-consumer-bank-expands-point-of-sale-financing-suite-to-include-installment-options-powered-by-amount-301277216.html>.

³¹² See PYMNTS, *Visa Launches Visa Installments Pilots in the US* (July 14, 2020), <https://www.pymnts.com/digital-payments/2020/visa-launches-visa-installments-pilots-in-the-us/>.

cardholders.³¹³ In 2019, Mastercard acquired Vyze, a POS platform that connects merchants with multiple lenders.³¹⁴ Through Vyze, merchants can connect with lenders and consumers can access those credit options both in-store and online.

The Bureau continues to monitor the developing market for new forms of point-of-sale financing, both those offered independently from and in conjunction with credit card products, in order to ensure consumers are adequately informed about financial offerings, that consumers are protected from risky practices, and that markets continue to provide consumer-friendly innovation and competition.

7.1.3 Other innovations

Card issuers and other financial services companies continue to innovate in ways that aim to attract or serve consumers. For example, several card issuers now offer instant issuance of credit cards upon approval.³¹⁵ Some card issuers also offer virtual credit card features which allow users to transact on their main credit card account through a separate, unique credit card number. Generally, users can limit a virtual card number to a specific merchant, transaction, or dollar amount. According to card issuers, virtual cards can help reduce fraud and give users more control over their online spending.³¹⁶ In 2019, Mastercard announced its “True Name”

³¹³ See Mastercard, *Mastercard Expands Installment Offerings Through Global Partnerships, Empowers More Consumers to Choose When to Pay with Pre-Sale, Point of Sale, and Post-Sale Payment Options* (Sept. 2, 2020), <https://investor.mastercard.com/investor-news/investor-news-details/2020/Mastercard-Expands-Installment-Offerings-Through-Global-Partnerships-Empowers-More-Consumers-to-Choose-When-to-Pay-with-Pre-Sale-Point-of-Sale-and-Post-Sale-Payment-Options/default.aspx>.

³¹⁴ See PYMNTS, *Mastercard buys POS Financing Provider Vyze* (Apr. 15, 2019), <https://www.pymnts.com/mastercard/2019/acquisition-vyze-pos-financing/>.

³¹⁵ After approval, Users can add a new credit card to their digital wallets, access their card number through a bank’s website or mobile app, or—in some cases, for private label cards—receive a scannable barcode to use at the retailer associated with the card. Barclays, *Barclays US Consumer Bank Expands Point-of-Sale Financing Suite to Include Installment Options Powered by Amount* (Apr. 27, 2021), <https://www.prnewswire.com/news-releases/barclays-us-consumer-bank-expands-point-of-sale-financing-suite-to-include-installment-options-powered-by-amount-301277216.html>.

³¹⁶ See, e.g., Capital One, *Virtual Numbers*, <https://www.capitalone.com/applications/en0/virtualnumbers> and Citibank, *Virtual Account Numbers*, <https://www.cardbenefits.citi.com/Products/Virtual-Account-Numbers>.

initiative, which permits cardholders to use their preferred name instead of their legal name on credit and debit cards, a common issue for transgender and gender non-binary individuals whose preferred names may differ from their legal ones.³¹⁷ Two major card-issuing banks announced they have implemented this feature.³¹⁸ Lastly, Venmo, a digital payments platform with a social media component owned by PayPal, introduced a credit card imprinted with a QR code which users can scan to activate their card or allow others to scan to send or request funds through Venmo.³¹⁹

The Bureau continues to note ongoing innovation in rewards programs, which are central to how many credit card products are marketed to consumers. These innovations include delivering rewards value in new forms. For example, at least three providers—SoFi, BlockFi, and Gemini—have announced plans to offer credit card rewards redeemable for virtual currencies.³²⁰ Another provider allows users to pay rent through their card without additional fees and redeem rewards for a down payment on a home.³²¹ Additionally, SoFi allows credit card rewards to be

³¹⁷ See Mastercard, *Who we are*, <https://www.mastercard.us/en-us/vision/who-we-are/pride.html>, last accessed Aug. 23, 2021).

³¹⁸ Citigroup, *Citi Launches “True Name” Feature With Mastercard Across the U.S.* (Oct. 19, 2020), <https://www.citigroup.com/citi/news/2020/201019a.htm>; <https://www.bmo.com/main/personal/true-name/>.

³¹⁹ PYMNTS, *Venmo Launches Credit Card Featuring User QR Codes* (Oct. 5, 2020), <https://www.pymnts.com/news/payment-methods/2020/venmo-launches-credit-card-featuring-user-qr-codes/>.

³²⁰ BlockFi Blog, *Join the Waitlist for the World’s First-Ever Bitcoin Rewards Credit Card*, BlockFi Blog (Dec. 1, 2020), <https://blockfi.com/bitcoin-card-crypto-rewards>. Tyler Winklevoss, Gemini Blog, *Gemini to Offer Credit Card with Crypto Rewards*, Gemini Blog (Jan. 14, 2021), <https://www.gemini.com/blog/gemini-to-offer-credit-card-with-crypto-rewards>. In 2014, the Bureau issued a consumer advisory, warning consumers about the risks of virtual currencies such as Bitcoin. *See supra* note 159.

³²¹ The provider, Bilt Technologies Inc., says it will mail landlords paper checks on behalf of the tenant (and card user) and then charge the renter’s credit card account with no additional fee. Will Parker, *Renters Could Collect Home Down-Payment Points With Credit Card*, Wall St. J. (Updated June 25, 2021), <https://www.wsj.com/articles/renters-could-collect-home-down-payment-points-with-credit-card-11624356000>.

redeemed for repayment of other non-card debt held by SoFi, including SoFi Student Loan Refinance and SoFi Personal Loans.³²²

7.2 Consumer adoption of innovative technologies

Consumer adoption of innovative technologies related to credit card payments and account servicing continued to grow over 2019 and 2020 and was likely accelerated by COVID-19. Pandemic-driven concerns around the use of cash or touching a payment terminal appeared to further the digital evolution at the point of sale, driving enablement and adoption of contactless payment methods such as “tap and pay” and digital wallets.³²³

7.2.1 Digital servicing tools

Consumer enrollment in digital account servicing grew at least partially in response to some of the disruptions caused by the pandemic. For example, bank branch closures, shortened hours, postal service delays, or social distancing may have further incentivized consumers to use online or mobile tools to check balances or cash a check more frequently than in pre-pandemic periods. Difficulty reaching customer service representatives by phone due to call center adjustments may have led consumers to try virtual assistants to meet their needs.³²⁴ Data show that despite the pandemic, some cardholders continue to interact with banks via traditional non-digital channels, but the trend toward adoption of digital servicing overall indicates these cardholders

³²² SoFi, *Once my SoFi Points are redeemed into a SoFi Personal Loan payment, when and how can I expect the payment to be applied?* <https://support.sofi.com/hc/en-us/articles/360051403531-Once-my-points-are-redeemed-into-a-SoFi-Student-Loan-Refinance-payment-when-and-how-can-I-expect-the-payment-to-be-applied> (last visited Aug. 17, 2021).

³²³ Telis Demos and Dan Gallagher, *Is This the Year You Finally Stop Swiping Your Credit Card? The pandemic has accelerated usage of ‘contactless’ payments in U.S. stores. The ultimate winners from this transition remain far from certain*, Wall St. J. (Aug. 4, 2020), <https://www.wsj.com/articles/is-this-the-year-you-finally-stop-swiping-your-credit-card-11597397428?PostID=18397976>.

³²⁴ For more information regarding call center volume, see Section 5.5.

increasingly represent a minority. This section uses MMI data to examine how consumers use digital account servicing platforms—online account servicing portals (online portals) and mobile apps.

ONLINE BANKING AND MOBILE APPS

Basic account servicing features are found in almost all online banking portals and mobile apps. Cardholders can review transactions (and dispute fraudulent ones), make payments, transfer balances, request cash advance PINs, activate new cards, request replacement cards, download full account statements, receive information about other card benefits, add or remove an authorized user from their accounts, inform their issuer of upcoming travel, report a card lost or stolen, change their account's due date, or send and read messages to and from account servicing professionals or chat with them in real-time.³²⁵

In recent years, the Bureau has noted additional functionality related to mobile apps, including card freezing, management of recurring card payments, additional card usage controls, and interactive digital interfaces for card balance payments.³²⁶ Many of these service features likely proved particularly useful to some during the pandemic, as many banks closed branches or limited operating hours, and customers experienced longer call wait times. To assist with longer wait times, card companies have introduced AI-powered chatbots to navigate and execute digital account management functions and make transactions.³²⁷ User engagement with these chatbots rose significantly through the pandemic.³²⁸ Chatbots provide an alternative method of accessing the apps' features in addition to providing higher-order functionality, such as responding to questions about spending patterns. Cardholders can use voice or text to direct a chatbot to search for certain transactions, display basic account information, add an authorized user,

³²⁵ See 2019 Report, *supra* note 6, at 173.

³²⁶ See 2019 Report, *supra* note 6, at 172.

³²⁷ Dawn Allcot, *Artificial Intelligence is Changing Credit Cards and Banking*, Bankrate.com (Feb. 4, 2019), <https://www.bankrate.com/credit-cards/artificial-intelligence-banking-credit-card-rewards/>.

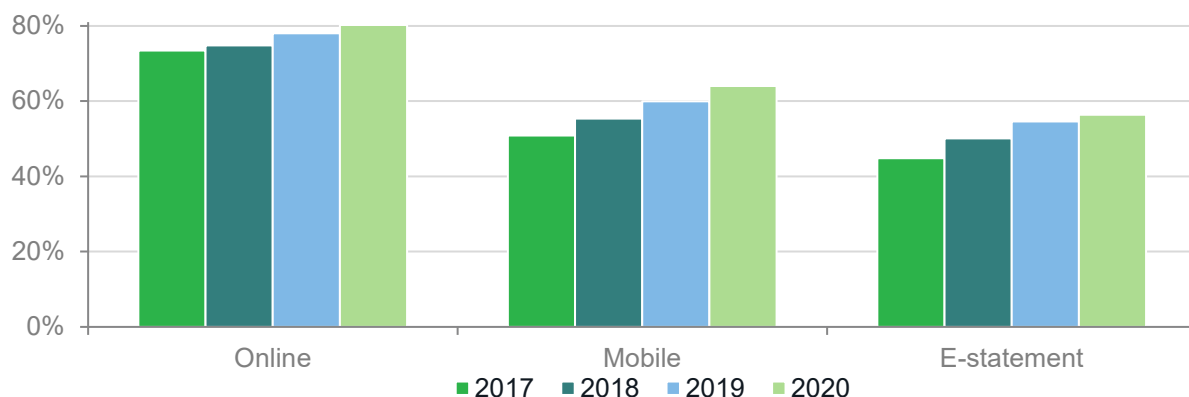
³²⁸ One such chatbot, Bank of America's virtual assistant 'Erica,' saw engagement jump 67 percent year-over-year to 17.2 million users in the fourth quarter of 2020. Rachel Green, *Bank of America ends 2020 with rising digital engagement despite squeezed margins*, Business Insider (Jan. 20, 2021), <https://www.businessinsider.com/hofa-q4-earnings-missed-mark-but-digital-engagement-rose-2021-1>.

summarize and plot monthly spending, or send alerts for upcoming bills, among other options. Many chatbots are responsive to both voice and text, with voice recognition requiring an additional layer of technology.

Digital engagement is growing consistently across all age groups and nearly every platform type. The share of people electing to receive statements digitally (e-statements) rather than by mail is continuing to increase, though the pace of adoption growth tapered in 2020. E-statement adoption has been surpassed by mobile app adoption as a method to engage with banks.

Figure 1 shows the share of active mass market credit card accounts enrolled in issuers' online portals and/or mobile apps.³²⁹ As of 2020, 80 percent of active accounts are enrolled in online portals for general purpose cards, with increases across all age groups. That share is significantly higher than the 55 percent the Bureau reported as of 2014.³³⁰

Figure 1: SHARE OF ACTIVE ACCOUNTS ENROLLED IN ONLINE PORTAL, MOBILE APPS, AND RECEIVING ONLY E-STATEMENTS, GENERAL PURPOSE (MMI)



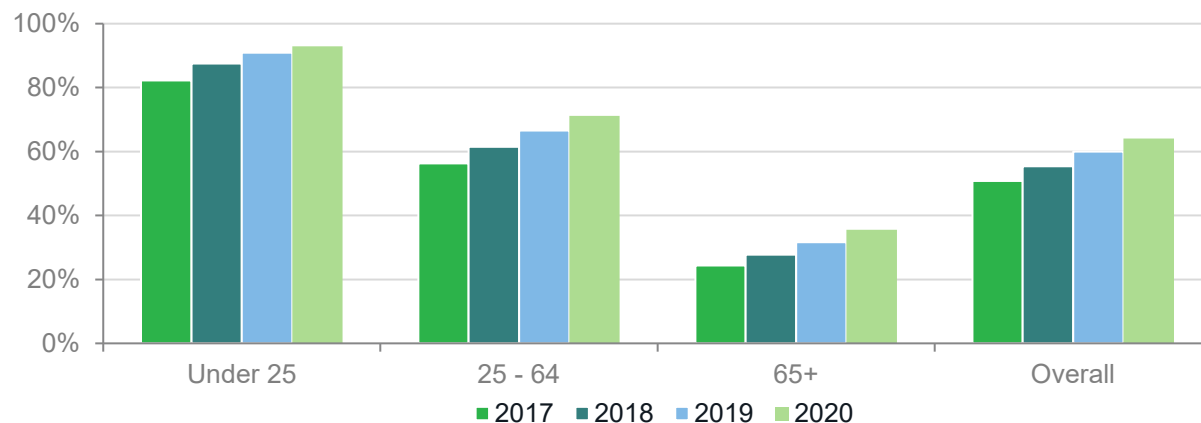
Also noteworthy is the rise in the share of accounts enrolled in mobile apps, which has more than doubled in only five years, from 30 percent in 2015 to 64 percent in 2020. Mobile app adoption is more common among younger consumers but increases in adoption can be seen

³²⁹ A consumer may be enrolled in an online portal and may also have the mobile app. In fact, some issuers require online enrollment before mobile app use can be engaged.

³³⁰ 2015 Report, *supra* note 6, at 133.

across all age groups. In 2020, 93 percent of active accounts held by consumers under age 25 were enrolled in the issuer's mobile app. For consumers between the ages of 25 and 64, and over 65, mobile enrollment share was 71 percent and 36 percent, respectively. Overall, the Bureau expects the trend toward increasing mobile app adoption to continue.

Figure 2: SHARE OF ACTIVE ACCOUNTS ENROLLED IN MOBILE APPS BY AGE, GENERAL PURPOSE (MMI)



ELECTRONIC STATEMENTS

As the Bureau noted in 2019, the share of people electing to receive statements digitally (e-statements) rather than by mail is continuing to increase significantly. The number of mass market accounts that receive only e-statements from their issuer has risen over the last five years and in 2020 was 56 percent. While electronic statements can be a convenient way to access account information, it is important consumers review electronic statements as thoroughly as they would paper statements.

As discussed in Section 2.4.3, a sizeable but declining portion of consumers still rely on paper to manage their accounts. Americans above age 65 tend to rely more on paper, with 21 percent choosing to make a paper payment in the last cycle of 2020, compared to 4 percent for ages 25-64. These findings generally align with the lower adoption rate of digital servicing tools among older Americans discussed earlier. As one commenter noted, paper statements remain an important mechanism to prompt payment for many consumers, particularly lower-income

families, and those without access to broadband internet, which includes 55 percent of Americans 65 years or older.³³¹

7.2.2 Physical point-of-sale

In the 2019 Report, the Bureau identified three significant developments at the point-of-sale which provided greater speed, security, or convenience for consumers and merchants: elimination of signature requirements for EMV “chip” card transactions; near-field communication (NFC) acceptance at the physical POS, which supports the mobile wallet technologies and applications incorporated into most smartphones used by American consumers; and contactless card issuance and adoption. Since 2019, the popularity of contactless payments (both through contactless cards and NFC mobile wallets) has continued to grow, aided by health concerns about physical contact during COVID-19.

The increasing availability of contactless cards and terminals, coupled with pandemic-driven anxiety around high-touch surfaces, drove consumer adoption of contactless payments during the pandemic.³³² Visa and Mastercard reported approximately 40 percent year-over-year global growth in tap-to-pay or contactless transactions in the first quarter of 2020.³³³ By the third quarter of 2020, contactless transactions accounted for over 40 percent of in-person

³³¹ “[W]e again urge the CFPB to protect the right and ability of consumers who want to keep receiving paper disclosures and billing statements by mail. Credit card issuers and other banks have aggressively pushed consumers to receive these important documents via electronic delivery but, as documented in our report *Paper Statements: An Important Consumer Protection*, these efforts can be harmful to consumers.” See NCLC Comment Letter, at 21. See also Chi Chi Wu and Lauren Saunders, *Paper Statements: An Important Consumer Protection* (Mar. 2016), http://www.nclc.org/images/pdf/banking_and_payment_systems/paper-statements-banking-protections.pdf.

³³² A study conducted by Forrester and the National Retail Federation and released in mid-2020 found that 58 percent of surveyed retailers accept contactless card payments, up from 40 percent the prior year. The same survey found that 67 percent of retailers surveyed now accept some form of no-touch payment. See National Retail Federation, *Coronavirus leads to more use of contactless credit cards and mobile payments despite cost and security concerns* (Aug. 6, 2020), <https://nrf.com/media-center/press-releases/coronavirus-leads-more-use-contactless-credit-cards-and-mobile-payments>.

³³³ See Telis Demos & John Gallagher, *Is This the Year You Finally Stop Swiping Your Credit Card?*, Wall St. J. (Aug. 14, 2020), <https://www.wsj.com/articles/is-this-the-year-you-finally-stop-swiping-your-credit-card-11597397428?PostID=18397976>.

transactions globally for both Visa and Mastercard.³³⁴ In a survey conducted in the third quarter of 2020, nearly half of respondents said the pandemic prompted them to use contactless payments more often or for the first time.³³⁵ In the last several years, the number of retail locations supporting NFC mobile wallets and contactless cards has grown significantly – over 70 percent of face-to-face transactions in the U.S. now occur at a contactless-enabled merchant location.³³⁶ Card issuers are also accelerating plans for contactless distribution.³³⁷

In late 2020 and early 2021, both Visa and Mastercard announced services which would allow businesses of any size to turn any Android smartphone or tablet into a contactless payment acceptance device without any additional hardware.³³⁸ The features could allow merchants to more easily accelerate the transition to contactless payments by providing a method for

³³⁴ Chris Reid, Mastercard: “In 2020Q3, contactless transactions represented 41% of in-person purchases globally (up 30% year-over-year)” at Card Forum 2021, Mar. 16, 2021. Visa 2020 10-K, at 8; U.S. Sec. & Exch. Comm’n, Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (Nov. 19, 2020), <https://d18rn0p25nwr6d.cloudfront.net/CIK-0001403161/0504ac14-a3a0-4506-9352-aa15cd087268.pdf>.

³³⁵ See S&P Global, *451 Research: 2020 Year-In-Review Infographic*, S&P Market Intelligence Blog (Feb. 17, 2021), <https://www.spglobal.com/marketintelligence/en/news-insights/blog/451-research-2020-year-in-review-infographic>.

³³⁶ For example, in early 2017, several years after its launch, Apple Pay was accepted at 36 percent of retail locations. As of early 2019, Apple reported that Apple Pay is accepted at 65 percent of retail locations. Retailers that support Apple Pay also support other mobile wallets such as Google Pay. See Press Release, Apple, *Apple Pay coming to Target, Taco Bell and more top US retail locations* (Jan. 22, 2019), <https://www.apple.com/newsroom/2019/01/apple-pay-coming-to-target-taco-bell-and-more-top-us-retaillocations>. See also Juli Clover, *Apple Pay Now Supported by 36% of Merchants in the United States*, MacRumors (Feb. 7, 2017), <https://www.macrumors.com/2017/02/07/apple-pay-36-percent-united-states/>. In its 2020 Annual Report, Visa reported that more than 70 percent of face-to-face transactions at checkout in the U.S. occur at a merchant that has the ability to accept contactless payment, and more than 80 of the top 100 merchants by transactions are enabled for tap to pay. (2020 Visa 10-K, at 8)

³³⁷ See Payments Journal, *Card networks have stepped up their contactless distribution* (Jan. 6, 2021), <https://www.paymentsjournal.com/card-networks-have-stepped-up-their-contactless-distribution/>. See also Section 5.5.

³³⁸ See Press Release, Mastercard, *Mastercard Pioneers Cloud Tap on Phone, its First Pilot of Cloud Point of Sale (POS) Acceptance Technology* (Jan. 11, 2021), <https://www.mastercard.com/news/press/2021/january/mastercard-pioneers-cloud-tap-on-phone/>; John Adams, *MOBILE POINT-OF-SALE: Visa debuts in-phone card acceptance as contactless takes off* (Oct. 21, 2020), <https://www.paymentssource.com/news/visa-debuts-in-phone-card-acceptance-as-contactless-takes-off>.

contactless payment acceptance without requiring a terminal. Mastercard's service is in pilot; Visa's service is expected to roll out in the U.S. in 2021.

Challenges to further adoption of contactless payments remain. There are several competing digital wallet networks and some retailers do not accept some major wallets. For a contactless transaction through a digital wallet to work, the retailer needs to accept both the digital wallet and the card stored in the digital wallet.³³⁹ Additionally, many mobile phones utilize facial recognition for authentication, which is hampered by masks, often mandated in store locations.³⁴⁰ Furthermore, some retailers have not upgraded their POS systems to accept contactless EMV transactions.³⁴¹ Finally, some consumers are reluctant to adopt contactless payments. One survey showed that, when asked, only one-third of respondents who reported they have a contactless card said they use tap-and-pay frequently to make purchases.³⁴²

For consumers who adopt mobile wallets, certain potential risks remain. For example, one commenter suggested that consumers who initiate card-on-file transactions through a mobile

³³⁹ AnnaMaria Andriotis, *Apple Pay Offers Germ-Free Shopping—If Only We Could Figure Out How it Works*, Wall St. J. (Jan. 27, 2021), <https://www.wsj.com/articles/apple-pay-offers-germ-free-shopping-if-only-we-could-figure-out-how-it-works-11611771110>.

³⁴⁰ An Apple software update (iOS 14.5 beta) provides a potential workaround for the issue of facial recognition with a mask for users who also use an Apple Watch. When a user raises their phone to their face to unlock it and the user is wearing an Apple Watch, the watch will communicate with the phone to unlock it. Lauren Goode, *The iPhone's Face ID Will Soon Work With a Mask—if You Have an Apple Watch* (Feb. 2, 2021), <https://www.wired.com/story/iphone-face-id-mask-ios-beta/>.

³⁴¹ A study conducted by Forrester and the National Retail Federation (cited earlier in this report) found that 58% of surveyed retailers accept contactless card payments, indicating some runway for further adoption by merchants. In addition, a survey indicated that a third of gas stations were likely to miss their extended deadline of April 2021 to upgrade EMV-enabled POS systems. *See supra* note 332, and Ted Rossman, *Deadline approaches for gas stations to upgrade to EMV chip technology* (Mar. 22, 2021), <https://nrf.com/media-center/press-releases/coronavirus-leads-more-use-contactless-credit-cards-and-mobile-payments>. The negative impact of COVID-19 on small businesses in particular could reduce the incentive and resources such businesses have to improve their point-of-sale systems.

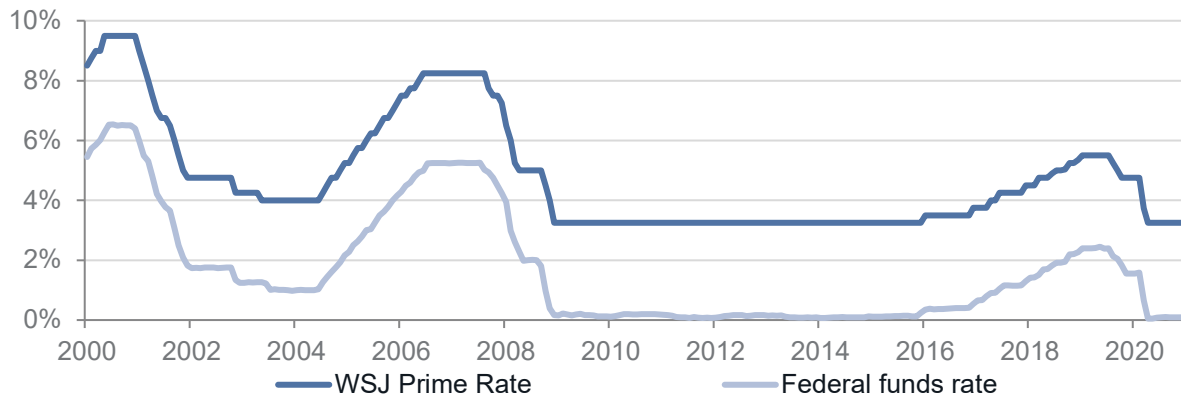
³⁴² The authors of the paper which describes the survey's results cite a number of potential reasons for this hesitancy: 1) consumers who have the tool are not adopting it, 2) The conversion of cash may not be as high as hoped, and 3) consumers need a push to break their payment habits. *See* Tom Akana and Wei Ke, *Contactless Payment Cards: Trends and Barriers to Consumer Adoption in the U.S.*, Fed. Rsrv. Bank of Philadelphia (May 2020), <https://www.philadelphiafed.org/-/media/frbp/assets/consumer-finance/discussion-papers/dp20-03.pdf>.

wallet may not be aware of the way their data are being collected and used. In this example, a consumer initially “registers” their payment credentials with a merchant. When the consumer uses a mobile wallet instead of a credit card to initiate a card-on-file transaction, the wallet can create a token with the merchant, which is then used to facilitate future transactions. Once established, the token directs all future transactions with that merchant through the mobile wallet—even though the wallet may not appear prominently (or at all) in the transaction flow. Consumers may not realize that the wallets will continue to collect data.³⁴³

³⁴³ See letter from Akerman to Wei Zhang (Markets) *re: CFPB CARD Act Study of Credit Card Market* (June 10, 2021).

APPENDIX A: SUPPORTING FIGURES

Figure 1: FEDERAL FUNDS RATE COMPARED TO WSJ PRIME RATE (WSJ, FEDERAL RESERVE)³⁴⁴



³⁴⁴ Fed. Rsrv. Bank of Fed. Reserve Bank of St. Louis, *Effective Federal Funds Rate*, <https://fred.stlouisfed.org/series/fedfunds> (last visited July 11, 2021); Wall St. J., *Market Data Center*, <https://www.wsj.com/market-data/bonds/moneyrates> (last visited July 11, 2021).