

COMMENTS ON

REGULATING CONSUMER
FINANCIAL PRODUCT:
EVIDENCE FROM CREDIT CARDS

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April 3, 2014

Overall Assessment

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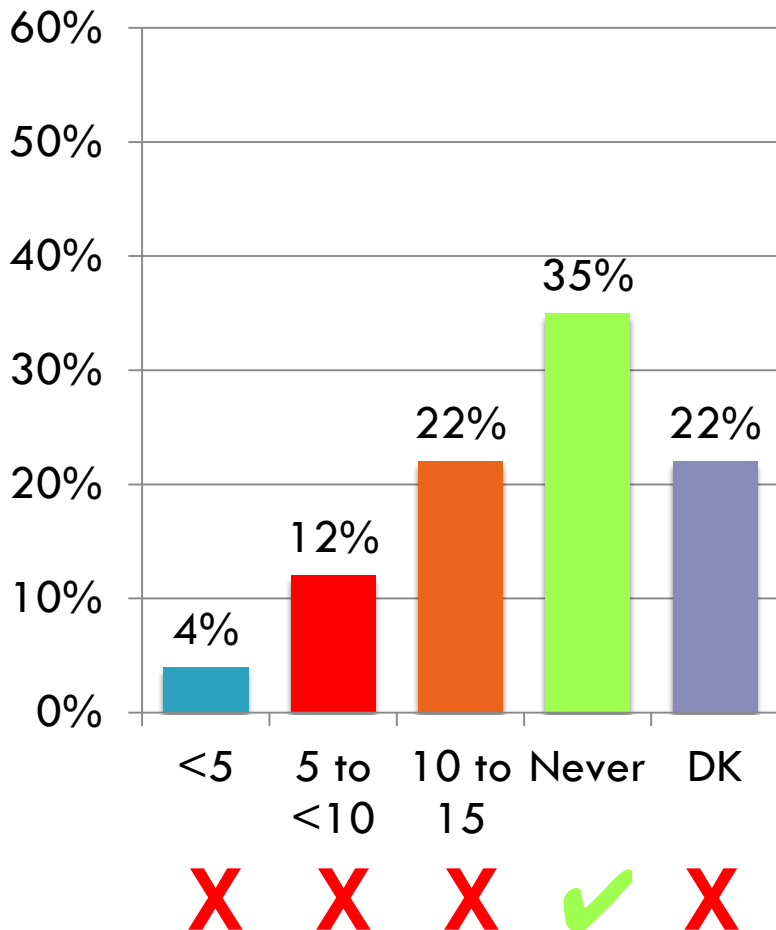


WOW!

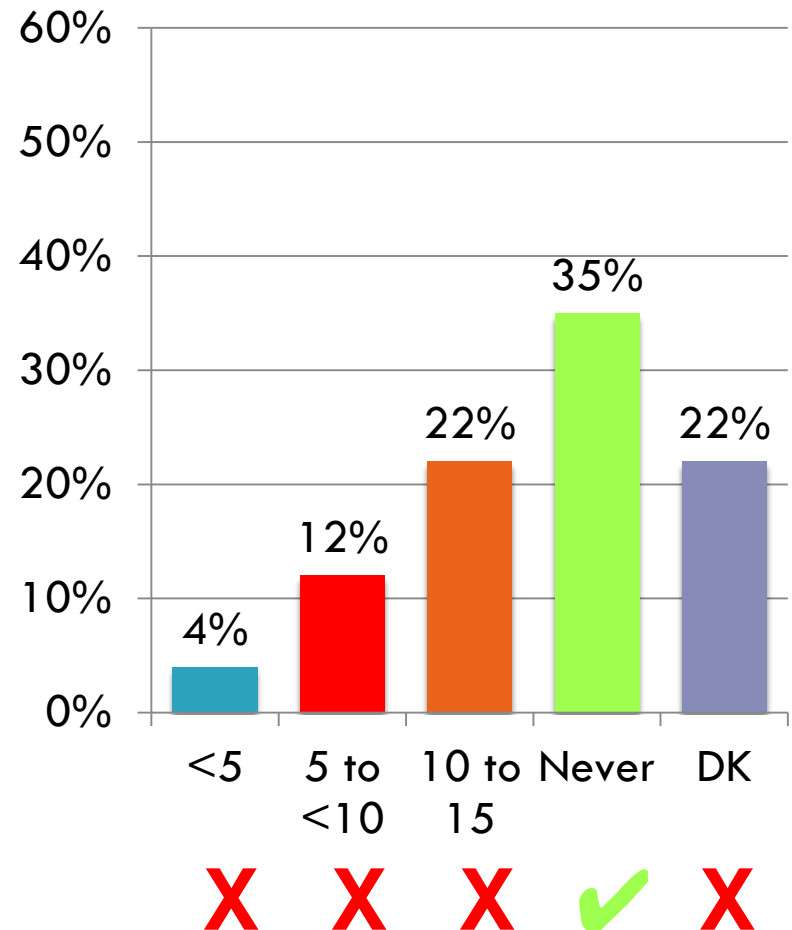
You owe \$3000 on your credit card. You pay a minimum of \$30 each month. At an APR of 12% (or 1% per month), how many years would it take to eliminate your credit card debt if you made no new charges?

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Population



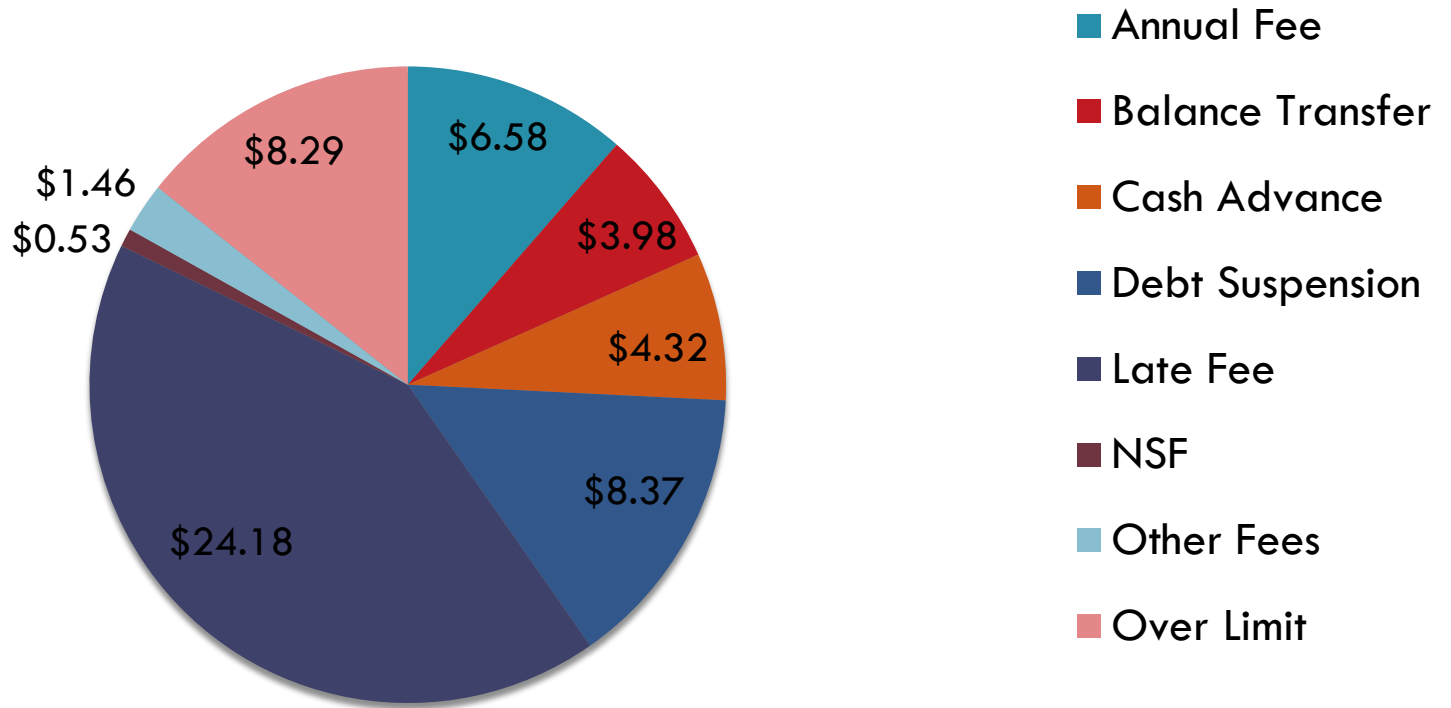
Harvard Undergraduates



Credit Card Fees

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Fees:
\$58 on average (annualized)



The Credit Card Accountability Responsibility and Disclosure Act of 2009: Timeline

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Card Act signed into law on May 22, 2009

August 2009

- 45-day advance notice to consumers of changes to card terms
- Inform consumers of right to cancel
- Bills must be mailed 21+ days before due

February 2010

- Opt-in for over limit fees
- Over limit fee can only be charged once per bill
- Bills must include 36-month payoff amount
- Bills must include payoff time if only minimum paid

August 2010

- Fees must be reasonable and proportions
- Late fee capped at \$25 unless customer has late payment in last 6 months
- Late can't exceed minimum payment
- Over limit fees capped at over limit amount
- Can't charge more than one penalty fee per violation
- Can't charge inactivity fee

Bank fee Whac-a-Mole: New charges hit accounts



CNNMoney.com, September 24, 2010

In August, the Card Act banned a variety of fees -- including certain overdraft and excessive late charges. But one month later, banks are increasing existing fees and finding creative new ways to charge customers more for credit cards, so-called "free" checking accounts and banking services.

Already this year cash-advance fees and balance transfer fees have risen to 4%, up from 3% in July last year... "It's like you've got a sinking boat, where you plug one hole and another one springs up," said Curtis Arnold, founder of CreditRatings.com. "You can shut down one egregious fee, but that doesn't mean other fees aren't just going to start popping up elsewhere."

Summary of Results

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- Empirical Approach: Diff-in-Diff analysis, before vs. after reform, consumer vs. small business cards
- Findings
 - ▣ Lower borrowing costs through reduced fees
 - Late fees
 - Total fees
 - Biggest effects for low FICO consumers who pay these fees
 - ▣ No offsetting increase in interest charges
 - ▣ No offsetting reduction in credit volume

Are small business cards a good counterfactual?

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- Yes: pre-CARD trends similar for small business and general purpose consumer cards
- Potential concerns:
 - ▣ Numbers disparity: 140 million consumer cards vs. 7 million small business cards
 - ▣ Who holds small business card?
 - Figure A6: less likely to carry a balance
 - Table 2: much higher (3x) purchase volume
 - ▣ Are different fees salient → offset behavior might be different?
 - ▣ Spillover effects to small business card market?
- Can you compare consumer and small business cards that are more similar?

Assessing the Impact on Fees

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- Opting in for over limit coverage
 - ▣ How does it work?
 - New vs. existing cards?
 - ▣ Have credit card companies found a way to frame this as a desirable option?
 - ▣ Short-term vs. long-term effects?
- Impact on average daily balances?
- Observation period and offsets to other fees
 - ▣ If card issuers increase annual fees, you would not observe this immediately—need to wait to end of the annual fee period for an adjustment → smooth upward trend over time.
- Offset to other non credit card fees

Heterogeneity in Effects

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- Would love to see more analysis of the effects for different types of consumers
 - ▣ Current analysis—look at universe of cards
 - Consumers vs. small business cards
 - Low FICO (<660) vs. High FICO (>660)
 - ▣ Other cuts of the data—look at panel of consumers
 - By distance from credit limit
 - By past history of paying certain types of fees—FICO a good proxy, but why not look at this directly?
 - ▣ Distributional outcomes in addition to mean effects

What Happened to Bank Profitability

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- Event study—to what extent did share prices fall?
- What happened to actual bank profits as the legislation was rolled out?